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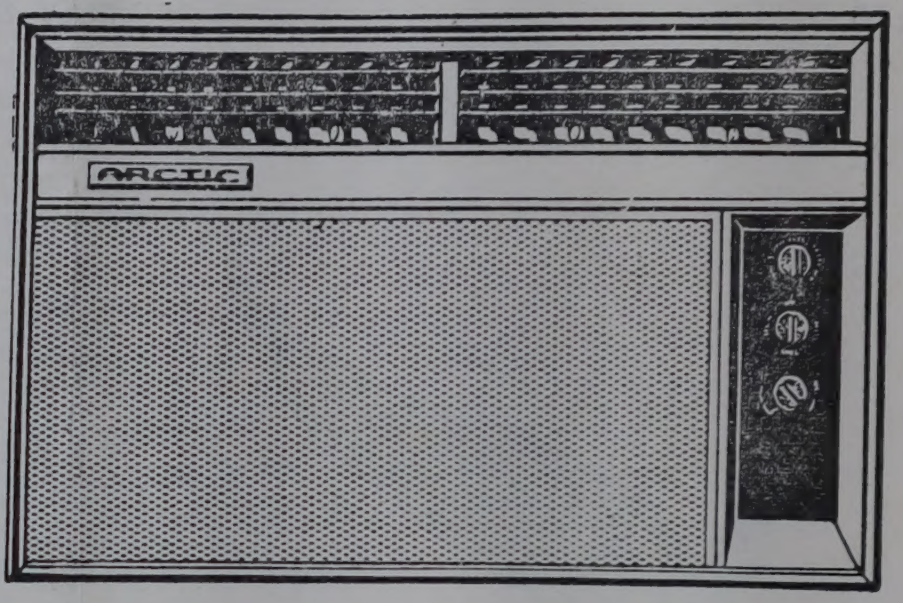

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Food AND steel

IN LONDON, on May 1, on his way to the US, Mr Jayaprakash Narayan said that finding a solution to the problems of Indian poverty was a stupendous task and that poverty could never be removed without the entire international community coming to India's aid. He added that there were, however, people in India who did not agree with this view, but he himself was convinced that "we do not just have the resources". The politicians presently in power have generally been in a hurry to quote Mr Jayaprakash Narayan or appeal to his pronouncements whenever it suits their purpose to do so. We hope that they will do the country a favour by listening to this counsel of wisdom from him on what is both obviously and essentially a non-political issue vitally relevant to the well-being and the future of the nation.

The Home minister, Mr Charan Singh, fresh from his demolition job on Congress governments in nine states, took time off on May 2 to deliver a victory speech to an audience which he apparently regarded as representative of the constituency which he has chosen to consider his particular fief, viz., the Indian peasantry. Addressing a meeting of the Farmers' Federation of India in New Delhi, he reportedly delivered himself of the utterly nonsensical dictum that there were two alternatives before the Indian economy, to wit, either to produce its own steel and import food or *vice versa*. In the weeks since the Janata government assumed office the public has been treated to loud thinking on the part of several ministers, not excluding the prime minister, offering simplistic solutions to national problems, political, economic, social or other. Mr Charan Singh's declaration that India has to produce less steel in order to be able to produce more food, however, takes the cake, or more appropriately, the *bajra roti*. Fortunately, this kind of superficial and short-sighted thinking cannot ultimately influence practical policy-making, however strong may be the political clout of the minister harbouring such obscurantist notions. Whether Mr Charan Singh likes it or not, the country's feet have been firmly set on the path of modern industrialisation and no backwoodsmen from any part of India are going to succeed in confusing its bearings by scattering economic superstitions in its way. Nevertheless, it does not redound to the credit of the government that ministers who ought to know better talk as if they do not.

We are not suggesting that this country cannot and should not aim at producing all the food it takes to feed its people and leave surpluses for export. But, then, this scale of projections for agricultural development makes sense only in the context of balanced economic development so that inputs such as fertilizers, pesticides, agricultural machinery and power equipment such as pumpsets are also produced on a large enough scale. The present Home minister is not the first nor is he going to be the last to bark up the wrong tree of the agriculture-versus-heavy industry controversy. It is however a pity that the high priests of agricultural expansion do not seem to realise that faith always perishes in the fires of fanaticism. If they want to make the country farm-minded, which itself is an extremely laudable purpose, they are setting about their business in a fashion which guarantees failure.

Basically the Charan Singh thesis proceeds from a feeling that India is too poor to do anything but remain poor. If this pessimism has any point, it is merely that our visible resources would seem grossly inadequate for stepping up investment and production to levels at which the abolition of destitution could become possible in ten years' time. It is here that Mr Jayaprakash Narayan's reference to assistance from the international community becomes relevant. Throughout history nations at varying stages of development have helped one another, wittingly or unwittingly, willingly or compulsorily, to achieve higher rates of growth. There are today vast reserves and resources of capital and technology in the world community and it is entirely up to the developing countries such as ours to try to dig deep into this virtually inexhaustible

fund. Modern science and technical know-how, wedded to modern business organisation and management, have placed immensely powerful tools in human hands for the economic betterment of the human race. It is only by deliberately shutting our doors on these opportunities that we can at all manage to ensure that our country remains poor.

India has large reserves of coal and iron ore. It has the labour to work these mines of potential riches. It has also the industrial experience, the technical know-how, the engineering skills and the skilled manpower to process these raw materials into pig iron, steel, machine tools, machinery and industrial plants. Yet Mr Charan Singh would decree that we do not produce steel but import it while exporting coal and iron ore. As a matter of fact something like this is happening now to our national disadvantage. Addressing the annual meeting of the FICCI recently, Mr B.M. Birla pointed out that at present we exchange our cheap labour to buy goods made by costly labour abroad. To quote: "We used to complain in colonial days that we were suppliers of raw materials and importers of manufactured goods. Even now the pattern remains the same. Therefore let us change this process so that we export goods made by higher technology and better paid labour at competitive prices".

constructive observations

Mr Birla also made certain other observations which had a constructive bearing on Mr Charan Singh's very proper keenness on improving the lot of the tillers of soil. He said that the business community shares the government's concern for the country's vast underemployed agricultural population and the need for economic build-up and prosperity in the rural areas. But, he added: "We cannot improve the conditions of our farmers and increase their purchasing power unless we draw the unemployed and uneconomic human power from farm to factory and provide millions of jobs in villages and raise their income. It cannot be overlooked that in a country such as the US, only six per cent of the population is not only producing all the food that the country needs but is also supplying food to many other countries. In India our potential to produce is immense, but the agricultural incomes are low because of the vast unemployment and poor tools".

It is not enough, of course, if we only weep over rural poverty and unemployment. This exercise may pull in rural votes, but it will not help rural progress. What would matter is a clear, time-bound programme for generating employment opportunities on a large scale and this can be done only if the stagnation in investment over the last several years, to which Mr G.D. Birla drew attention in a speech in New Delhi last month, is breached. He said very firmly that the country would have to pay the price of this stagnation for the next four years or so in the form of shortages of essential commodities and growth of unemployment. It is therefore all the more necessary that an attempt should be made to clear the arrears of investment.

international cooperation

While the country should naturally and necessarily rely mainly on its own effort to pull itself out of this slump in investment, it should not make the task more difficult for itself by being blind to the possibilities of international economic cooperation. This is why both Mr G.D. Birla and Mr B.M. Birla have pleaded that the government should approach this issue of foreign investment with a fresh mind. The rewards for a positive approach could be rich indeed since the higher oil prices have strikingly increased the capital surpluses of the oil-exporting countries, which are being deployed by the normal channels of the international commercial banking system as well as through international institutions.

During his visit to the US for attending Fund discussions last month, the Finance minister, Mr H.M. Patel, showed welcome awareness of this country's need for drawing on international assistance for its development. Newspaper reports had emphasised that Mr Patel expressed India's strong preference for multilateral over bilateral aid. This in itself is no major policy innovation, but only the traditional stand which this country has been taking for years now. Moreover, foreign countries and governments providing development assistance have also be moving fast towards the concept of mul lateral aid. This has been strikingly t case with the US where opinion, bo within the administration and t Congress, has come down heavily favour of aid being provided throug institutions such as the IDA.

replenishing resources

Where Mr Patel's talks might hav helped us was in impressing on th OECD and OPEC countries the urgenc for replenishing the resources of th IDA as well as the IMF facilities Mr Patel's plea for further issues o SDRs for development financing woul be strengthened if developing countries including India, demonstrate in practice that they can utilise promptly and effectively the foreign exchange resources available to them. This aspect gains significance in the Indian context because of the substantial increase in our foreign exchange reserves.

The emphasis on multilateral aid is right and proper where inter-governmental development financing is concerned. Developing countries, however, should supplement this approach by improving the climate for foreign investments and thereby relating more directly the sources of funds to their investments in mutually advantageous ways. Many developing countries, whether in Asia, Africa or South America, are in fact realising this and currently encouraging foreign investments in a big way. This trend has made its appearance at an opportune time since countries such as West Germany and Japan are now increasingly inclined to participate in major investment ventures in developing countries. Japan seems to appreciate the fact that it can satisfy some of the criticism against its foreign economic and trade policies by stepping up both official development assistance and private investments abroad. This course would also support the efforts of Japanese manufacturers to export industrial plants. In West Germany, again, partly because of high labour costs in that country, there is a tendency among major export-oriented firms to set up basic manufactur-

facilities in consumer countries. By ng up a policy of promoting foreign in- stments to approaches to international stitutions for more resources, the deve- ping countries could raise their rates of vestment as well as speed up their industrialisation. We are 600 million people in a world community of 4,000 million people and our contribution to world wealth and incomes should after all bear some relation to this ratio. Our nation has no business to be content with less.

STC does it again

THE STC had a difficult, but successful ear in 1976-77. It improved its total turn- ver to Rs 966 crores from Rs 923 crores n 1975-76. Anticipating a slump in the arnings from the export of sugar, it had et its turnover target at Rs 793 crores and, although those earnings fell even more sharply than expected, it was able to step up its total business substantially partly because earnings from the export of silver exceeded anticipation and partly because the value of imports of oils and fats was much more than was assumed or estimated in the beginning.

The main unfavourable factor for the corporation which had operated in the world markets last year was the decline in the prices of a number of commodities. Sugar which had emerged as the most important commodity in this country's export list in 1975-76 could not retain that position because of the sharp break in prices. While the value of exports of sugar in 1975-76 was as high as Rs 468 crores, it dropped to Rs 152 crores only in 1976-77 even though the target had been fixed at Rs 225 crores. Like sugar, the exports of textiles and army software through the STC were placed much below the assigned targets.

export performance

The setback sustained in the export of canalised items was to some extent made up by increased exports of non-canalised goods though the overall export perfor- mance was poorer by as much as Rs 98 crores. As against exports valued at Rs 759 crores in 1975-76, the STC succeeded in exporting goods worth Rs 661 crores even though it had budgeted for exports worth Rs 615 crores.

The fast-changing patterns in world trade need efficient and quick decision- making mechanisms for taking advantage of favourable tides. The STC has shown that it is building up its capabilities for taking advantage of trade opportunities. This is suggested by its fine performance in respect of such commodities as silver, coffee, cement, castor oil, footwear and tobacco. The value of silver exports rose from five crores of rupees in 1975-76 to Rs 94 crores in the year under reference. Similarly, coffee exports increased from five crores of rupees to Rs 54 crores, cement from Rs 15 crores to Rs 36 crores, castor oil from Rs 16 crores to Rs 31 crores and footwear from Rs 18 crores to Rs 31 crores.

achievement of targets

Keeping in view the current economic revival in the industrialised countries and the successes which this country's exports have witnessed in West Asian markets, it is highly likely that the target of exports which the STC has set for itself at Rs 785 crores in 1977-78 will be achieved. The import policy for the current year has liberalised the import of machinery relat- ing to leather, jute and garment industries and this is expected to help the STC in stimulating the exports of textiles and footwear.

The latest import policy has removed four items from the list of products whose import was hitherto canalised through the STC. They are copra, rayon grade wood- plup, peppermint oil and raw wool. The import of edible oils was liberalised by the Congress government early in January this year when imports by the private sector were allowed, though the needs of the vanaspati industry for these oils were required to be met by the STC. No change in this policy has been indicated. However, two additions to the canalised list have been made, they are (a) photo chemicals and colour papers; and (b) photographic colour films. These alterations in the list of canalised items are not likely to hurt the STC import target of Rs 375 crores in 1977-78. In the projections for the current year, the STC had anticipated the import of oils and fats worth Rs 260 crores. Since the private sector imports have not mate- rialised in the requisite volume despite liberal import licences, it seems that the STC will continue to shoulder this respon- sibility during the current year. In the meantime, a special committee appointed by the Commerce minister, Mr Mohan Dharia, is examining the reasons why the liberalisation of import of edible oils through the private sector has failed to step up the flow of imports within a reasonable period.

increased imports

In regard to imports as well, the STC was called upon to shoulder increased burdens. While the STC imports in 1975- 76 were worth Rs 160 crores and it had targeted for imports valued at Rs 175 crores in 1976-77, the actual imports were as high as Rs 299 crores. This nearly 90 per cent increase in imports was necessitat- ed by the sudden decision of the govern- ment of India to import increased volume of oils and fats. The value of imports of oils in 1975-76 was Rs 46 crores and the STC had anticipated imports worth Rs 53 crores in 1976-77 but the level of their imports had to be raised to Rs 168 crores at short notice because of the shortfall in production of domestic oilseed crops. It was because of the quick arrangements which the STC could make for the import of different oils that the government was successful in restraining the rise in vanaspati and oil prices. The task of holding buffer stocks of oils and tallow all over the country and making them avail- able to the consumers as and when they needed them was indeed stupendous and the STC did rise to the occasion to face this challenge. As matters stand today, the STC will be called upon to meet an increasing demand for oils and fats in the current year and the level of import opera- tions is expected to increase further. The STC has budgeted for imports worth Rs 375 crores which are roughly half of

its anticipated exports. The bulk of the imports will be of oils and fats followed by newsprint and books, and textiles.

The STC has no less than five subsidiaries whose total turnover in the year under reference was worth Rs 113 crores—nearly one-eighth of the total value of operations of the corporation. The Chemicals and Pharmaceuticals Corporation of India Ltd (CPC) is a leader among the subsidiaries. In 1976-77, its imports at Rs 89 crores were almost 15 times the exports worth six crores of rupees. Even then, the STC has described the export performance as "a most gratifying feature of the year's working." This is perhaps due to the fact that our country has been a traditional importer of chemicals and pharmaceuticals. But in many chemical and pharmaceutical units, our country has excess capacity and vigorous marketing effort can result in raising exports.

The gross profit of the STC rose from Rs 19.7 crores in 1975-76 to Rs 28.9 crores in 1976-77 though the budget had anticipated a lower profit at Rs 12.4 crores. It is not possible to locate the particular transaction which inflated its profits as this information is not forthcoming from the review made available to the Press. For a proper understanding of the working of the corporation, it is necessary that information regarding its profits or losses in particular transactions is disclosed.

Cutting the bag according to the sacking

On April 18, the Jute Manufactures' Development Council completed one year of its existence and, on this occasion, Mr K. K. Chatterjee, member-secretary of the Council, narrated to reporters in Calcutta its past activities and future programme. The main point he emphasised was the inadequacy of funds at the Council's disposal, He suggested that its budget allocation should be increased from the present level of Rs 45 lakhs to at least Rs 2.50 crores to enable the Council to do justice to its objectives. He said that this could be done by raising the existing production cess rate from 0.125 per cent to one per cent. The Council has represented to the government of India on this matter and it remains to be seen how New Delhi will react to this proposal. But has the Council clearly drawn up its programme of priorities?

The Council has been set up in order to serve as a forum to deal promptly and effectively with the problems of the jute industry. It is expected to undertake various activities including research, development, training, export promotion, standardisation, cost control, quality control, productivity and product diversification. While inaugurating the Council, Prof D .P. Chattopadhyaya, the then union Commerce minister, said that it would be "unwise on the part of the Council, in the initial period of its life, to attempt to give attention to all the functions enumerated". He said that it would be desirable "to concentrate on those functions, which were of immediate importance, thereby seeking to make an impact, which would be of benefit both to the industry and the nation". Therefore, while considering the request for more funds, the union Commerce ministry should satisfy itself about the order of priorities in the Council's programme.

For instance, Mr Chatterjee disclosed that the Council would use a portion of its funds for improving the per acre yield of jute. He said that this was necessary since the Council's efforts for cost reduction in respect of finished goods would be largely nullified if raw jute prices were not kept within reasonable limits. But can the Council do much by its own efforts to improve the yield per acre? This problem has been engaging the attention of the government and the industry for the last quarter century or more and a great deal of research has been done in this direction. But its results have not percolated to the field and there has been no significant improvement in the yield. How then does the Council propose to deal with this problem?

Mr Chatterjee revealed that the Council was shortly going to send a delegation to the countries of the European Common Market in order to explore the prospects for promoting the export of jute goods. The demand for jute goods from these countries has sharply fallen in recent years due to the increasing popularity of synthetics. According to a study made by the Indian Institute of Foreign Trade the apparent consumption of jute goods in western Europe declined from 5,00,300 tonnes to 4,58,500 tonnes until the decade ending 1970, indicating an annual fall of one per cent. But from 1970 to 1974, the loss in apparent consumption had been as much as five times of what had occurred in the entire preceding decade. The actual decline in consumption in terms of quantity was from 4,58,500 tonnes in 1970 to 2,48,400 tonnes in 1974. This loss of the market by 2,10,000 tonnes took place mainly in West Germany and Britain and to some extent in Belgium, Italy and the Netherlands.

mill closures

The study of the Indian Institute of Foreign Trade has shown that between 1972 and 1974 as many as 21 jute mills were closed down in western Europe, of which three were in West Germany, four in Belgium, three in France, two in Britain and nine in Spain. Before sending the delegation, the Council should make a thorough study of the circumstances that have led to the set-back to the jute industry in western Europe and its present condition.

Mr Chatterjee said that the Council had finalised a set of production norms for the jute industry in relation to men, machinery and material. These norms have been proposed for sacking, hessian and carpet backing. He pointed out that these would help the industry to take practical steps for increasing productivity and reducing cost, commensurate with maintaining quality. But has labour given its reaction to these norms? In the last few weeks there has been increasing evidence of labour unrest in jute mills and it is not clear therefore to what extent

t will sincerely cooperate with the management in improving productivity and reducing costs.

The member-secretary of the Council revealed that so far 11 jute mills had submitted their application to the Industrial Finance Corporation of India for soft loans for modernisation and that two had been granted a total sum of Rs 5 crores. He said that half of this amount would be spent on overhauling and repairing and the other half on the purchase of new machinery. It seems that the implementation of the programme of modernisation has been far too slow mainly because of the lack of adequate funds with the jute mills. In fact, the chairman of the Indian Jute Mills Association suggested recently that the entire credit requirements of the industry for modernisation should be provided by the financial institutions. This plea gives some indication of the extent to which uneconomic working has affected the industry's financial position. "The greatest threat to the existence of the jute industry today is the lack of its viability", said Mr J. P. Goenka on April 18, 1976 when the Development Council was inaugurated. But what has the Council done in the last year and proposes to do in the coming year to improve the industry's viability?

In the meantime, the production of jute goods is being seriously affected by frequent and unscheduled load shedding for prolonged periods. It has also pushed up the costs of manufacture and created labour unrest. The industry has appealed to the government of West Bengal to exempt it from the provisions of the energy control order. But so long as the overall supply of power remains inadequate, the jute mills will have to face the impact of load shedding. There are also problems arising from the shortage of raw jute, greater competition from Bangladesh, and disruption of shipments due to labour trouble in the Calcutta port. In these circumstances, the Jute Manufactures' Development Council should try to help the industry as far as possible to operate on a remunerative basis. It should sponsor delegations to foreign countries only when it is confident that the industry will be able to deliver the goods.

Sugar policy needs new look

THE SUGAR industry is passing through a crisis. Sugar mills in the southern region particularly are apprehensive that it would be well-nigh impossible to emerge out of the red even after two or three seasons unless the central and state governments adopt a helpful policy and fix reasonable prices for levy sugar and cane. It so happened that the industry fares badly in years of record production and official policies get confused. Only in 1974-75 season no serious problem arose in respect of the marketing of record output because exports could be effected at a profit and the central exchequer was happy to appropriate to itself the large surpluses even while denying to the sugar mills particularly in Maharashtra, Andhra Pradesh, Karnataka and Tamil Nadu reasonable prices for levy sugar. In 1969-70, however, the then record output of 4,26 million tonnes could not be absorbed and with the sudden decontrol there was a slump in prices and it took three years for the industry to recover from the adverse effects and the policy of partial decontrol had to be successfully administered.

This policy of partial decontrol is by itself well-conceived. But the mistaken notions about fixation of levy sugar prices, minimum prices for cane and the collection of purchase tax and cess by state governments have resulted in a serious erosion of profit margins and diversion of cane for being converted into gur and khandsari. If the appropriate remedies are not adopted in time, the experience of Uttar Pradesh and Bihar may well be repeated in the four main producing states south of the Vindhyas which are now accounting for 54 per cent of the all-India output. Moreover a larger proportion of cane production is handled by sugar mills in these four states than in Uttra Pradesh and Bihar, ensuring better use of available cane supplies and maximisation of value added by manufacture.

The output of cane in 1975-76 in these four states was 53.34 million tonnes while the cane handled by sugar mills was 22.92 million tonnes or 44 per cent. In Uttar Pradesh and Bihar cane availability was 63.12 million tonnes while cane handled was only 13.40 million tonnes or 21 per cent. The difference in the proportions of utilisation of cane by sugar mills is due to the keen competition from producers of khandsari and gur. Even in the southern region the proportion would not be as high as it is now but for the unique experience of Maharashtra where the quantity of cane handled by sugar mills in the 1975-76 season was as high as 14.26 million tonnes out of a total production of 19.17 million tonnes.

competition from khandsari

In Karnataka and Andhra too the average utilisation is higher than Uttar Pradesh and Bihar though the proportion is smaller than Maharashtra. Thus the quantity of cane handled by sugar producers in Andhra in 1975-76 was 3.29 million tonnes against an output of 9.42 million tonnes and in Karnataka 3.4 million tonnes against 9.96 million tonnes. There are latterly, however, reports of serious competition from khandsari producers and the output of this sweetening agent in these two states has nearly doubled in the last two seasons because of the fixation of unduly low prices for levy sugar.

In Tamil Nadu there are peculiar features. With the active policy of many managements to encourage cultivation of sugar cane in the areas adjoining the factories the growth in output of cane over a period was useful to the factories for increasing sugar production and many units could successfully expand their capacity. In 1969-70 the output of cane was 10.21 million tonnes with the share of sugar mills being 3.65 million tonnes. In 1973-74 the industry in the region established a record in respect of its output at 4.43 lakh tonnes and cane handled was 5.28 million tonnes out of the total output of 18.29 million tonnes.

The proportion of cane utilisation did

not increase even in a year of record output, but there was no problem of availability as the increase in cane cultivation came about in a phenomenal manner with higher prices paid by sugar mills and the relatively low return from the cultivation of competitive crops. This position has however vastly changed since 1974-75 and it is not expected that there will be any return to the previous levels of production until 1977-78 or 1978-79. The output of cane in 1975-76 was only 14.79 million tonnes and quantity handled by sugar mills only 1.97 million tonnes. Even the process of recovery can be hastened only if the state governments took note of the difficulties of the sugar mills in the region and reduced the purchase tax and cess drastically besides impressing upon the central government the need for fixing realistic prices for levy sugar.

under-utilisation of capacity

It is important to take immediate decisions as there is heavy under-utilisation of capacity in Andhra Pradesh, Karnataka and Tamil Nadu and it will not serve any useful purpose if heavy expenditure on the creation of new capacity is incurred when the existing units are languishing for the lack of supplies and are suffering heavy losses. The difficulties are of course partly due to the failure of the monsoon for two seasons in succession and the higher prices available for competitive crops. There may be some correction with normal rainfall in the affected regions. Even so it will need a lot of coaxing to bring back area under cane cultivation even in regions where farmers were formerly eager to do so. This is because the return from the cultivation of rice is much higher than that on cane and there is also competition from jaggery producers. As Andhra Pradesh and Karnataka have their own peculiar problems it has been represented to the government that higher minimum prices for cane should be fixed along with higher prices for levy sugar.

The ministry of Agriculture will have to evolve a new policy which will provide for automatic changes in minimum price for cane and levy sugar as it cannot be expected that sugar mills will continue to suffer losses. It is also important to bear in mind that Andhra Pradesh, Karnataka and Tamil Nadu are in a position to produce additionally even 500,000 tonnes of sugar with the same capacity with a prolongation of the crushing season and the cultivation of cane on a larger scale in factory areas. The earlier procedure of weighted adjustments in cane prices on the basis of prices realised on free sale sugar and evasion of responsibility of the central government for ensuring reasonable minimum prices will have to be abandoned.

The process of recovery in Uttar Pradesh may take a long time as many units have to be modernised and their capacity increased to optimum levels. On the other hand many new units have sprung up in the southern states and the capacity of the existing factories also have been considerably expanded. It will be extremely unwise if the capability of the three states cannot be fully utilised. It is also necessary to enable Maharashtra to continue to do its good work without creating conditions for diversion of cane to gur and khandsari producers, as it is now accounting for a third of the all-India sugar output.

There are also other problems from the national angle which have to be urgently tackled. The output in 1976-77 season is likely to be 48 lakh tonnes and it is reported that the central government is not anxious to effect export of sugar because of the fear of incurring heavy subsidies. In view of the fact that it secured large profits in earlier years the losses on export sales could be easily borne by the government. Also, the adoption of different techniques will help sustain exports thou there should not be any aggressive selli in world markets which will have a de ressing effect on prices. It is unlike however that world prices will come dov to below £ 140 per tonne for white sug and if the happenings in markets for oth tropical products are any guide wor prices for sugar are bound to get stabilis at higher levels.

The central government should ther fore, export at least 800,000 tonnes sugar out of this season's output ar release for internal consumption 3.8 mi lion tonnes. The carry-over will the be only one million tonnes into the ne season. The whole quantity of sugar e ported may be out of the levy quota the requirement of the home market wi be only 2.47 million tonnes against notional levy quota of 3.12 million tonnes It will, therefore, be possible to expor 600,000 tonnes of levy sugar withou causing any difficulty in the home market Only on the balance of 150,000 tonne subsidies will have to be incurred whic may not be more than Rs 15 crores. It i quite likely that world prices will improv by the time the entire quantity of 800,00 tonnes is exported. Without a realis tic policy in respect of marketing of record output and the refixation of levy price for sugar and minimum prices fo cane, history will repeat itself and the objective of achieving a sustained increase in production for meeting the needs of the home market and earning foreign exchang through exports will not be realised.

Eastern Economist 30 Years Ago

May 16, 1947

Under the Foreign Exchange Regulation Act of February this year, which empowers the government of India and the Reserve Bank to exercise control over the entire field of exchange and bullion transactions, the government of India have asked all foreign banks to obtain all detailed information about sterling transactions involving £250 or more being sent out of India, probably with a view to considering whether imposition of any control over these transactions would be warranted. All banks dealing in foreign exchange have been required since May 1, to obtain from persons remitting £250 or more to the UK a statement indicating the purpose for which the money is to be utilised and other details about the transaction. Till now amounts involved were only being reported. Government officials, are reported to have expressed the opinion that amounts involved in those transactions were not of such magnitude as to provide any cause for alarm, and the government have therefore no intention of imposing any control upon these transactions such as now governs those in American dollars. It is fairly well known that Indian investors have lately taken interest in sterling investment and bought shares in British companies in UK. When there is so much uncertainty about the settlement on sterling balances, we should take the utmost care to see that no flight of British capital is allowed to take place before the settlement, because if the worst comes to the worst, the British investments in India would at least be left for us to take over.

CAPITAL'S CORRIDORS

R. C. Ummat

Economic policy pronouncements • Steel target and plans • Rabi procurement

FOUR IMPORTANT pronouncements on economic policy were made last week—three by ministers of the union government and one by the newly elected president of the Janata party.

Addressing newsmen on his return from the United States, where he had gone to take part in the meetings of the joint Fund-Bank Development Committee and the Interim Committee of the Board of Governors of the IMF, the union minister for Finance, Mr H. M. Patel, preferred to style the recent statements of the prime minister, Mr Morarji Desai, about government's desire to end deficit financing as his personal opinion to which, as Finance minister in Mr Desai's government, he had to attach great significance. Mr Patel, however, did not categorically rule out the possibility of resort to deficit financing to some extent during the current financial year.

deficit financing

Mr Morarji Desai himself has subsequently clarified the position saying that the objective of having balanced budgets without any element of deficit financing was the goal towards which his government had to work. Some deficit financing this year might have to be resorted to as the process of ending this recourse had to be gradual. Another important factor Mr Desai referred to in this connection was the recent wide-ranging concessions announced by several state governments which were headed by the Congress before their terms were ended through a presidential proclamation dissolving nine state assemblies in the north and where re-elections are to be held early next month. These concessions, the prime minister poined out, had queered the pitch and greatly impoverished the state exchequers. Some of these concessions, incidentally, have been withheld later to be decided upon by the governments which would be formed after the ensuing elections

shortfall in receipts

The above statement of the prime minister provides an indication that there is no basis for the impression in some circles that the Finance minister is having his own ideas on deficit financing contrary to those to the prime minister. It may be recalled that Mr Patel had estimated in his interim budget the likely shortfall in this year's central receipts at the prevailing taxation rates compared to the envisaged expenditure to the extent of Rs 1,432 crores, which was envisaged to be brought down to Rs 632 crores by drawing upon the accumulated foreign exchange reserves to the order of Rs 800 crores.

The Finance minister, however, may not leave a big uncovered gap between the estimated resources and expenditure of central government this year. Subsequent to the presentation of the interim budget, not only export duty on tea has been raised but also the rebate scheme for these exports has been withdrawn. The expenditure on new projects too has been held in abeyance pending recasting of this year's Plan programmes in terms of the Janata Party's manifesto. Mr Patel's attempt apparently will be to keep the deficit within safe limits so that it does not add to the inflationary tendencies in the economy which have got accentuated during the past one month.

The second major announcement came from Mr Patel in regard to the preference of the government for external assistance through multilateral channels instead of on a bilateral basis and also for this assistance being programme-oriented rather than project-oriented. Mr Patel expressed the view that the climate for foreign investments in India as well as for aid commitments by the donor countries was more favourable now than in the recent years. He expected that the aid flow would improve this year. The Finance minister clarified that the policy of self-reliance did not mean stoppage of all external assistance. Aid, in fact, was needed for achieving self-reliance, he said.

Mr Patel revealed that in his talks abroad with the World Bank authorities as well as the Finance ministers of some western democracies, he had urged that taking into consideration the area and the population of the country, India's share in the IDA assistance should be maintained at the present level of 40 per cent even when there was an increase in the IDA funds through replenishment from $4.5 billion to $7.6 billion. He felt that there was widespread support for this plea of his. Foreign investments, Mr Patel clarified, were welcome in selected fields of industrial activity.

minister's assurance

The minister for Industry, Mr Brij Lal Varma, has given categorical assurance that the central government would not do anything which would either stagnate output in the existing industries or lead to a decline in employment and production or give rise to serious tensions or problems. He has urged upon the industrial community that it should assist the establishment of small-scale and ancillary units which could create additional employment in the country. The industrial community, he further suggested, should think of starting new projects in the electronics, chemicals and drugs and plastic industries in which prospects of large growth in employment opportunities were high. Mr Varma has reiterated that the Janata party is committed to reversing the trend of migration to urban areas and ending destitution within a period of 10 years. With this objective in view,

new grounds, he has stressed, have to be broken for the decentralisation of industry.

Mr Chandra Shekhar has declared that the Janata party was not against the development of the public sector which had come to stay in the country and had to be there in certain fields of economic activity. The prime minister also has reaffirmed his faith in mixed economy but he has stressed that neither sector should be allowed to dominate the other.

* *

The Steel Authority of India (SAIL) is understood to have fixed this year's target for the production of saleable steel at the six integrated steelworks at 7.3 million tonnes, as against the last year's target of 6.456 million tonnes, which was exceeded by as much as 456,000 tonnes. If this year's target is accomplished, the overall utilisation of capacity of the integrated plants in terms of saleable steel will approximate to 91 per cent.

The capacity utilisation last year at the five integrated steelworks at Bhilai, Rourkela, Durgapur, Jamshedpur and Burnpur was around 91.9 per cent. If, however, Bokaro was included in the last year's computation of capacity utilisation, the utilisation of capacity would have been significantly lower, as several units of this plant were commissioned into commercial production in the second half of the year.

The SAIL is aiming at better utilisation of the installed capacities to produce saleable steel at the six integrated steel plants with the objective of not only improving their profitability but also in view of the fact that it is now preferring exports of finished products and is cutting down those of semis. The sale of semis to the rerollers within the country, however, is not envisaged to be curtailed any significantly in the interest of meeting the requirements of a wide range of sections of rolled products which would entail injudicious use of the available overall rolling facilities if the integrated steel plants are to undertake this job on their own. The integrated steelworks, of course, are being increasingly attuned to the pattern of both domestic and export demand.

The study group which is currently going into the future expansion programme of the steel industry is understood to have suggested only selective investment for some time in view of the domestic market not being able to absorb fully the increase in production and firm ideas about the limitation of coking coal reserves on the future growth programmes. The currently known coking coal reserves in the country are estimated to be sufficient at the current level of consumption only for 44/45 years. Their life will decrease in an inverse proportion to the increase in steel-making capacity.

As indicated by the new minister for Steel and Mines, Mr Biju Patnaik, a few days ago, the future expansion programme of the steel industry will have to be drawn up very carefully and it might have to be considered whether it should be linked to some extent to imports of coking coal from abroad. Another important factor to be considered in this regard is the technological developments in steel manufacture.

assessing demand

The above study group is also making some more realistic assessments of the demand for steel in the country in the coming years, taking into consideration the experience of the recent past and the likely orientiation to be given to the overall planning in the country in terms of the Janata party manifesto. This exercise is expected to be completed in the next few months. A clearer picture of the needs of development of the steel industry in the future will emerge only then. The selective approach to investments for the time being has been suggested with a view to making the production programmes of the existing steel plants more akin to the anticipated requirements of the home market and the possibilities of exports in the next few years.

* *

Notwithstanding the facts that private traders have been allowed to make purchases and move wheat to the deficit states without any restriction and the recent untimely rains in the major wheat-producing areas of the north have upset harvesting and threshing operations of the rabi crops, the procurement of rabi grains, particularly wheat, has picked up well in the past few days, particularly after the dissolution of state assemblies. The procurement machinery has been geared up considerably with the result that the price of wheat, which had broken the support level of Rs 110 per quintal in some markets, has now stabilised around this level.

procurement picks up

The total procurement of wheat up to May 4 had been of the order of 4,13,096 tonnes. Although this was lower than the 566,981 tonnes procurement last year till that date, the purchases both in Punjab and Haryana had exceeded the last year's figures. Punjab, for instance, had procured up to May 4, 217,280 tonnes, as against 167,159 tonnes by that day last year, and Haryana 144,403 tonnes, as against 123,110 tonnes. The arrivals in the market, which had been somewhat delayed due to recent rains, have started rising rapidly. The official circles are confident that they will be able to fully ensure that the farmers are not required to part with their produce at prices below the support price for want of adequate machinery for procurement.

With a view to minimisng undue losses to farmers because of some damage to their crop by untimely rains, the government has also allowed relaxation in specifications in respect of the rain-affected wheat. The rain-affected stocks which are procured, however, are to be kept separately and efforts will be made to clear them for consumption expeditiously. The stocks found to be unsuitable for human consumption are proposed to be utilised for making chicken feed.

Announcement

M/s. Saurabh Pustak Bhandar, Ahmedabad, have been appointed as our Subscription Agents. Necessary enquiries may please be made to :-

Saurabh Pustak Bhandar
615, Relief Road, First Floor,
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Phone No. 31230

Reversing inflation and maintaining price stability

Prof C.N. Vakil & Dr P.R. Brahmananda

Prof. C.N. Vakil has submitted to the prime minister a Memorandum on a Policy for Inflation Reversal and Guaranteed Price Stability, drafted by Dr P.R. Brahmananda. This is in continuation of the Economists' Memorandum on a Policy to Contain Inflation which he submitted, on behalf of more than hundred economists, to the then prime minister in February 1974, with a supplement in May-June of the same year. In view of the fact that inflation has again overtaken the economy at a time when the Janata government is anxious to undertake programmes for a new economic policy for solving the chronic problem of poverty and unemployment, it will be necessary to deal with this problem first, because, unless prices are controlled and reasonable stability of prices is established, other economic programmes will be difficult to operate. The Memorandum argues that "the arch devil in the game is excess money supply and it is imperative to devise methods by which such excess is removed and equilibrium between money and goods is restored and maintained."

IT IS a matter of public knowledge that more than hundred economists from different parts of the country submitted a memorandum to the then prime minister of India in February 1974 outlining a package of inter-connected measures to contain the raging inflation, the financial year average of prices (new series)having reached a rate of rise of 25 per cent during 1974-75, as compared to 20 per cent during 1973-74, 10 per cent during 1972-73, and five per cent during 1971-72. This was followed, three months later, by a supplement outlining the 'Scheme of Economists for Monetary Immobilisation through Bond Medallions and Blocked Assets' (SEMIBOMBLA). The then government of India, be it said, at that time, to their credit, undertook, immediately thereafter, and in a sequence, some monetary, fiscal and physical measures, which together, not merely quickly halted the rising trend in prices, but also for some time, reversed the trend itself.

Among the various measures that were initiated, almost all of which were mentioned or hinted in the memorandum, were the following:

(i) Impounding and immobilisation of additional wages, and of 50 per cent of the increase in the dearness allowance of organised workers, numbering nearly one and a half crores, and compulsory deposits of a portion of salaries of income-tax payers.

(ii) Increase in the bank-rate from seven per cent to nine per cent (and, thereafter to about 11 per cent taking the effective incidence of the interest tax levied during 1975-76).

(iii) A rise in tax-revenues, in non-tax sources of revenue, and tightening of collection procedures.

POINT OF VIEW

(iv) A slow-down, for a while, in the pace of public sector's construction programmes, thus a lowering of the pressure on building materials, and a reduction in the tempo of increase in government expenditure.

(v) Freezing of 'excess' dividends, leading to a slow-down of private corporate investment.

(vi) Punitive action against smugglers, black-money operators, and misusers of foreign-exchange.

(vii) Massive imports of food-grains.

It may be noted that all these measures were brought in long before the proclamation of the emergency in June 1975. That the community as a whole, not excluding sections of organised labour, acquiesced in these measures is some evidence of the distress from which the people had been suffering due to inflation, and of its hope in the efficacy of the economic remedies against inflation. These measures had an immediate, almost dramatic, impact on our economy between September 1974 and March 1975: the money supply remained stationary during a number of months, currency holdings actually declining. Wholesale prices started declining from September 1974 and continued to decline till end of March 1976; inflation psychology in the goods market was reversed; excess demand pressures on wage-goods and building materials was reduced; 'black' holdings of liquid resources got channelled into organized financial and other institutions; the export trade got a boost; the pace of growth of imports, particularly in smuggled imports, came down; the exchange value of the rupee rose; and exchange remittances from Indian residents abroad started pouring in.

the mechanism

However, in view of the great world-wide interest aroused on the precise way in which India was able to contain inflation during the period July 1974-Aprli 1976, and of the analytical importance of this experience for India itself in the immediate future, we may briefly describe the mechanism. 1974-75 was *not* a bumper harvest year. The effects of the bumper harvest of 1975-76 may be deemed to be potent only from December 1975 onwards, when the *kharif* crop of 1975 started coming into the market. We cannot, therefore, account for the falling trend in prices for the 13-month period, September 1974 to December 1975, when there was a decline of about seven per cent in the index number of wholesale prices, by referring

only to the bumper harvest of 1975-76. *Money supply increased during the above period by hardly 0.7 per cent.* This is the crucial factor. The impounding of 50 per cent additional dearness allowances, etc, curbed the expansion of money supply. By the end of July 1976, the impounded amounts were said to have risen to about Rs 1,400 crores. In normal circumstances, government would have borrowed more on the net from the Reserve Bank, and the commercial sector too would have done so from the commercial banks.

factors for decline

Money supply declined during 1974 from Rs 11,450 crores in June to Rs 10,920 crores in August, and reached Rs 11,566 crores by March 1975. Currency with the public which stood at Rs 6,336 crores in March, and Rs 6,658 crores in May 1974, came down to Rs 6,139 crores by December 1974 and reached Rs 6,378 crores by March 1975. Thus, over the year the supply of currency remained more or less at a stationary level. In January 1976, it amounted to Rs 6,461 crores. Forgetting the rise and fall in the intermittent months over the period of 20 months, May 1974 to January 1976, the supply of currency was of the same level. The stationariness in currency and the decline in the growth-rate of money supply are accounted for by the following factors:

1. The working classes had to draw upon their currency holdings to buy grains, etc, in the wake of the impounding ordinances. Since the Food Corporation was also selling grain, currency was partly drained out of the public.

2. The fact that real wages of workers were reduced led to a reduction in the demand for some of the wage-goods.

3. The terms of trade declined for agricultural producers, thus restraining the flow of purchasing power to the rural areas.

4. The strict measures against smuggling and foreign exchange leakage came later in 1974. In the interregnum, the holders of currency could take some exchange out of the country by surrendering currency to the Reserve Bank of India.

5. During 1974-75, there was a surplus on the revenue account of the central government of Rs 764 crores though taking revenue and capital accounts there was a deficit of Rs 721 crores; during 1975-76, the revenue surplus went up to Rs 897 crores and the overall deficit was Rs 367 crores. These figures do not take into account the impact of borrowing from the commercial banks and of sales of securities to the Reserve Bank. Nevertheless, they give some indication that, during 1975-76, the budgetary operations tended to put less currency into the hands of the public.

The government's measures were rather moderate compared to those recommended by the economists. The memorandum had pleaded for a planned one-shot reduction in money supply, and, thereafter, for a ceiling of five per cent on the annual growth rate of money supply. Yet, even the moderate measures of the government had a potency, which was a surprise to many. Financial journalists and even some economists had been doubting the efficacy of control over money supply growth as an instrument to contain inflation. Prices could, and would, never come *down*, it was repeatedly asserted. Even developed countries could not bring *down* the price level; how could a developing economy do so? Yet, it is a fact that prices *did* come down; they came down even in a year of lean harvest; monetary and fiscal measures, though moderate, were effective and quickly so.

unconvincing argument

The argument in certain circles that the decline in money supply was due to the drain of currency into the vaults of the authorities because of the loan from the International Monetary Fund and the internal sales of grains is not quite convincing. Taking the data over the years, the period did not witness any substantially greater sale of grains than in the earlier years. The loan from Fund is not by itself a deflationary factor. An extraordinary factor, as mentioned earlier, during the July 1974-April 1975 monetary process was the decline in absolute currency-holdings with the public. This may be accounted for by two factors: (1) The reduction in the relative share of wages of workers due to the impounding ordinance; and (2) the deterioration in the terms trade of agricultural producers vis a-v industrial producers. These two factc reduced the absolute currency-holdings the public. The late Hawtrey, the distr guished monetary economist of Britai expounded the theory that the drain currency into circulation was due to t relative growth in the income of wag earners, etc. A decline in their relati share, and in the relative share in mon incomes of agriculturists during a peri of rising production, would lead to reduction in currency holdings. Th phenomenon, which we may term as t "reverse-Hawtrey cash-drain," was occu ing in India during the period referred t above.

necessary analysis

The above analysis of the reversal o inflation during 1974-76 is necessar in order to dispel the belief in som circles that inflationary process is du to structural factors and not mone tary-cum-fiscal supply factors and that i inflation can be reversed, it would lead t collapse in saving, investment, productio and the role of the public sector. To repeat, not merely was inflation halted, the index of prices was turned in the reversed direction. This reversal was very much due to restriction in the rate of growth of money supply. It may be noted that tax-revenue of the central government went up from Rs 5,073 crores in 1973-74 to Rs 6,322 crores in 1974-75, thanks to the supplementary budget, and to Rs 7,709 crores in 1975-76 (Rs 8,081 crores R E for 1976-77). Non-tax revenue went up from Rs 1,173 crores in 1973-74 to Rs 1,460 crores in 1974-75, and further to, Rs 2,066 crores in 1975-76 (Rs 2,115 crores R E for 1976-77). The sizeable step-up between 1974-75 and 1975-76 is obvious. The 'own' tax-revenue of state governments want up from Rs 2,881 crores in 1974-75 to Rs 3,421 crores in R E 1975-76 (Rs 3,836 crores in B E 1976-77); non-tax revenues went up from Rs 2,322 crores in 1974-75 to Rs 2,704 crores in R E 1975-76 (Rs 2,931 crores in B E 1976-77). The ratio of tax-revenue to net domestic product went up from 15.4 per cent in 1973-74 to 16.5 per cent in 1974-75, and to 18.3 per cent

1975-76. The ratio of saving to net mestic product at market prices went from 12.3 per cent in 1973-74 to 13.1 r cent in 1974-75, and to 14.7 per cent 1975-76; and the ratio of net capital rmation from 13.0 per cent in 1973-74 14.7 per cent in 1974-75, and to 16.2 r cent in 1975-76.

Contary to the critics of the policy of a on-inflationary path in developing econo- ies, the period of falling prices was companied by rising ratios of tax-revenue net domestic product, and of rising aving and investment ratios. The index of dustrial production witnessed a rise of 8 per cent in 1974 (compared to a decline f 0.2 per cent in 1973), and a further rise f 5.5 per cent in 1975. (In 1976 it is upposed to have gone up further by about 0 per cent). The real national product ent up by 0.2 per cent in 1974-75 but purted by 8.8 per cent in 1975-76.

positive gains

The above account of the behaviour of he economy during 1974-75 and 1975-76 as highlighted the process by which ontrol over inflation was obtained and he positive gains which the economy eaped therefrom. The authorities did ot realise that such control has to be btained continuously. They became either omplacent or did not comprehend exactly he perennial nature of the task of achiev- ng price stability. There were a number of nterests which pressed for a renewal of he rising tempo of public expenditures, n particular of Plan expenditures. The umper harvest gave an opportunity for he Food Corporation to augment its tocks and naturally credit for this purpose started expanding. The private corporate sector as well as the business community in general started demanding relaxation of credit curbs. The very control of inflation which helped to strengthen the value of the rupee and the action against smugglers led to the inflow of exchange remittances and along authorised financial channels. The stringent action against 'black' incomes and the fear of raids also helped to channel liquid resources through banks and company deposits. Cumulatively these factors helped to strengthen the expan-

The rise in prices, experienced since March 1976, has affected almost all essential commodities which enter the wage goods basket. This is despite the bumper harvest of 1975-76. The chief source of inflation thus is the large scale expansion of money supply.

sionary forces in the monetary and fiscal spheres. Inflation inevitably staged a come back.

During the busy season of 1974-75 itself, money supply had expanded by about 10 per cent. The budgetary operations of 1975-76 renewed the expansionary stimulus and money supply started expanding at an accelerated pace. The slack season of 1975 did *not* witness the usual seasonal contraction in money supply, though there was some decline in currency. But, the busy season of 1975-76 witnessed another 10 per cent expansion in the supply of money. The slack season of 1976 witnessed a contra-seasonal expansion in money supply; and the busy season of 1976-77 has, so far by end March 1977, witnessed an expansion in money supply of the order of 11 per cent. At the rate at which money supply is currently rising, the expansion in supply of money during the financial year 1976-77 might be of the order of between 18 to 20 per cent, as compared to a rate of monetary expansion of 15 per cent during 1973-74, 6.5 per cent during 1974-75 and 9.6 per cent during 1975-76.

major factors

The major factors responsible for monetary expansion during the period beginning with end March 1976 are, expansion in net bank credit to the government sector, expansion in net bank credit to the commercial sector, and the increase in foreign exchange resources of the banking system. Net bank credit to the government sector has increased over the last Friday of 1976-77 by about Rs 840 crores. Bank credit to the commercial sector has increased by about 2,750 crores. It appears that credit for non-food procurement may have expanded by about Rs 750 crores, whereas bank credit for other purposes to the commercial sector has expanded by as much as about Rs 2,000 crores. Net foreign exchange assets have increased by about Rs 1,430 crores.

The two factors responsible for monetary contraction are (1) growth in time-deposits and (2) growth in non-monetary liabilities. During the year 1976-77, growth in time-deposits was Rs 2,393 crores and growth in non-monetary liabilities was only of the order Rs 329 crores of which about Rs 255 crores may be the increase in impounded deposits. Whereas together expansionary sources have contributed about Rs 5,117 crores as compared to Rs 3,294 crores during the previous year, the contractionary factors have contributed to Rs 2,722 crores, as compared to Rs 2,194 crores during the previous year when impounded deposits expanded by as much as Rs 907 crores.

rising price index

The index of wholesale prices, which witnessed a fall of 6.9 per cent over 1975-76 has gone up by about 12 per cent over 1976-77. The upward tendency in the price-level has been noticed from March 1976, when the monthly average of the index (new series) was 162.6 (1970-71 =100). Thereafter the prices have been moving up in a steady manner, and both during slack and the busy seasons. By end of March 1977, the index stood at 181.5 indicating a 11.6 per cent increase over the year. The prices of primary articles have risen by about 20 per cent. Of these, prices of cereals have risen by 9.3 per cent, of pulses by 16.1 per cent, of edible oils by 63.5 per cent, of drugs and medicines by 11 per cent, of sugar by 5.7 per cent and of cotton textiles by 18.0 per cent. The prices of petroleum products do *not* appear to have risen over the year. In other words, the rise in prices has been almost wholly due to domestic factors. Manufacturing products have risen by eight per cent, even though industrial production is supposed to have gone up by 10 per cent or so during the same year.

The rise in prices has affected almost all essential commodities which enter into the wage-goods basket. That prices have risen and are continuing to rise, despite the after-effects of the bumper harvest in

agricultural commodities during 1975-76 and of only a marginal drop in production in the index of agricultural production during 1976-77, and despite the large scale of imports of some of the essential goods permitted during the latter part of 1976-77, points clearly to the chief source of inflation *as flowing from the side of aggregate monetary demand, as a result of large scale expansion in money supply.* It is pertinent to note that prices fell during the period September 1974 to December 1975, a period of shortfall in agricultural production and that prices were continuing to rise during 1976-77 during a period of aftermath of a bumper harvest in agricultural production. These two factors indicate that it is not so much changes in supply *per se* but changes in the level of monetary demand flowing from expansion in the supply of money that is responsible for variations in prices. There is room, therefore, to believe that under Indian conditions, even in the wake of the recent experience, the primary stoker of the fire of inflation, the arch villain, happens to be money supply.

growth of money supply

The economists' memorandum had recommended a five per cent ceiling on the growth rate of money supply during the fifth Plan. The five per cent ceiling was recommended after a careful consideration of factors like the average feasible rate of growth of output in the economy over the future, and the need for providing for a possible steady rise in monetisation and for year by year flexibility in the variation in money supply, on account of fluctuations in output, particularly in agriculture. It is sad to contemplate that the authorities did not appear to have paid heed to this important suggestion of the economists, which if implemented would have forestalled the return of inflation and so soon. The prices are currently on the same level as during September 1974. Monetary and fiscal policy have come round in a full circle. By allowing the return of inflation, the authorities have broken faith with the organised workers and with the poorer sections of the community. Over the first three years of the fifth Plan, money supply has expanded by as much as Rs 4,225 crores, by nearly 40 per cent over the level at the end of the fourth Plan. (In the final document of the fifth Plan, the total expansion in money that had been envisaged over the entire period of the fifth Plan would have been of the order of about Rs 5,000 crores or so). It is necessary that every effort must be undertaken once again, not merly to halt the rising prices, but to reverse the trend.

PM's assurance

The new prime minister has given an assurance to the community that the government will try to bring down the price level. The new Finance minister, in his budget, has drawn attention to the deficit of Rs 632 crores in the central government's vote on account budget during 1977-78 despite new market borrowing of Rs 849 crores which is obviously a further source of inflation as the bulk of the loans would come from the banking system. The wheat support price for rabi of 1977 has already been raised from Rs 105 to Rs 110; this will enlarge the fiscal subsidy on issue price already running at a high figure of Rs 460 crores. The government has promised to buy at Rs 110 per quintal as per specified quality, whatever the farmers are willing to offer. The rise in the support-price of wheat would call forth a similar demand for other cereals. Industrialists and business circles are also clamouring for removal of all credit curbs. Chairmen of finance institutions are voicing forth a plea for a cut in the bank rate.

Almost all state governments have presented ex-ante budgetary deficits for 1977-78. Many state governments abolished a number of taxes which they had early levied and have announced considerable fiscal relief prior to the election. The spokesmen of organised industrial labour have been vigorously clamouring for the abolition of the CDS and the return of the impounded deposits. The restoration of the eight per cent bonus has also been demanded. Besides, there are a number of pending cases of wage-increases with the public and the private sectors and their agencies. We are thus once again getting caught in the whirlpool. However, over the future, if monetary and fiscal policies continue to be of the same vintage as in the immediate past, the prospect is certainly one of uncontrolled and galloping inflation. Drastic remedies are therefore in order.

During 1976-77, the output of foodgrains may turn out to be five per cent eight per cent less than in 1975-76; that of cotton is expected to be marginally less than in the previous year, though less by as much as 15 to 20 per cent over that in 1974-75; output of jute may turnout to be 25 per cent higher; that of oilseeds would tend to be considerably less than in previous year, of groundnut particularly less by about 14 per cent that of tobacco appears to be less by 10 per cent. We may expect the index of industrial production to go up by less than five per cent during 1977-78 since new capacity has not been growing. The impact of rising prices during 1976-77 will be gradually reflected in the trade balance during 1977-78.

rupee exchange value

The recent tendency of a fall in the exchange value of the rupee may lead eventually to a gradual reduction in exchange remittances unless inflation is reversed. Taking all in all, the growth rate of commodity-output in 1976-77 may turn out to be not higher than four per cent as compared to the growth rate of about eight per cent during 1975-76. Since commodity output would have grown at a lower rate during 1976-77, the carry-over of rawmaterial stocks from 1976-77 to 1977-78 would be considerably less than during 1976-77. There has been succession of bumper and fair harvests during the past four years. One hopes that 1977-78 might witness the continuance of this happy state of affairs; but one cannot, and may not, be sure of this. Taking all in all, we should plan monetary and fiscal policy for 1977-78 on the assumption of an over-all real income growth rate of three per cent.

A new government has taken over at the centre; monetary policy matters like money supply and interest rates are wholly controlled by the Finance ministry

The new government has made a commitment to bring down the price level. Since it has come to power with a sizeable popular support and its leaders have earned a measure of respect, the public can reasonably be asked to be patient with the postponement of election promises for a short while.

nd the Reserve Bank of India; fiscal olicy, particularly budgetary policy, of oth the central and the state governents, is very largely determined by the inance ministry at the centre; the size nd pattern of Plan outlays are determind largely by the decisions and guidelines f the central government. Most importnt of all, the new government has made commitment to bring down the price-evel and to utilise the fiscal and monetary nstruments, including a budgetary surplus, to this end. It has also promised o restructure planning priorities so as to obtain a higher rate of growth of production of wage-goods. Since it has come to power with a sizeable popular support and s also fresh to power, and its leaders have earned a measure of respect from the public because of their loyalty and suffering for public causes, the public can reasonably be requested for patience and forbearance; there is no harm if the fulfilment of some of the monetary-expansionist promises like the abolition of the CDS or the restoration of the eight per cent bonus are postponed for a short while, particularly in view of the higher-inflationist legacy. We submit that a package of anti- and counter-inflationary measures must be announced as early as possible and a plan of macro-monetary-fiscal-physical action is charted for the coming year.

statistical findings

Before we outline our plan for inflation-reversal, we may briefly note some important statistical findings. A recent study has provided some sophisticated empirical evidence that, under Indian conditions as during 1950-51 to 1973-74, the 'long-period' variation in the price level of commodities in general, as well as of wage-goods can be comprehensively, and statistically satisfactorily, accounted by the joint variation in the supply index of commodities, as well as of wage-goods, and in the volume of money stock. If we take the stock of money as constant, the multiple regression exercises indicate that the supply-indices of goods in general, and of wage-goods, have an inversely proportionate effect on the wholesale price index and the wage-goods prices index, whereas if we keep the supply-indices constant, the stock of money has a directly proportionate effect. For 'short-periods', it appears that the direct and proportional effect of money supply on prices (both sets) is alone statistically significant.

There are too many slips between the cup of variation in aggregate supply indices and the lip of the price levels. Hoarding and dishoarding due to price-expectations are important, and vitiate the goods' supply effect. Studies also reveal that money stock *per se* or money stock adjusted for price level changes, does not, in the context of given real capital stock etc., have any statistically significant effect upon real output. The same is the case in regard to real investment expenditures or real government expenditures. There is also a statistically stable relation between credit and money supply. What is interesting is that whatever the specification of the function, public distribution does not have a downward effect upon foodgrains prices. Money wages, given real capital stock etc. do not appear to be the *proximate* sources of rising prices, the effect of money supply on prices being dominant all through. Interest has a positive and significant effect on real savings and the price level has a negative effect, which too is significant. These findings have important implications for the future shape of economic policy. We may also explain how drastic monetary action did help to bring down the price level during the period from June 1974 to March 1976.

target norm

We must begin first by announcing a target-norm for the price level to be reached by the end of the fiscal year 1978-79. The authorities, in our view, should aim at bringing down the index of the price level from the current figure of 182 (1970-71=100) in end March 1977 to by about 10 per cent, or by about 18 points, over the next two financial years. Since physical output may not feasibly grow at more than three per cent during 1977-78, and there is already a state of very easy liquidity in the economy, the authorities should aim, in the minimum, for a zero growth rate in money stock over the coming financial year, and if possible for a reduction in money stock by about five per cent over the year. This should enable the price level to come down by about four per cent to five per cent over the year if agricultural output prospects turn to be fair, or will hold the priceline at the current level, if the output propects turn adverse. We suggest that for 1978-79 the growth rate in money supply should be kept at about two per cent to three per cent lower than the expected growth rate in real output, as noticeable around the end of 1977-78.

liquidity positions

A firm commitment by the authorities on the above lines will help all sectors to plan their liquidity positions with care and economy. The government ministries and departments will know that financial resources are going to be scarce and this will help to reduce their demands. Attention will shift towards the economising of real resources and commitments will be made very sparingly. Tax and non-tax sources of revenues, and attraction of savings from non-financial sectors will come into focus. The reliance of state governments on the banking system too will get reduced. In the private sector too firms will begin to look inwards and to the non-financial market for new sources of funds. Retained profits will become an important source. The new issue market will come into life again. The policy goal of a reduction in the price level and the announcement of determination by the authorities to adopt appropriate monetary and fiscal policies to this end will discourage hoarding and unproductive speculation. Profits on these anti-social activities will suddenly go down and the long-term saving and investment habit will become prominent.

The combined receipts of central and state governments as per revised estimate of 1975-76 amounted to Rs 19,206

crores connoting an increase over that of the previous year by nearly 13 per cent. The combined disbursements (revised) was Rs 19,674 crores indicating a rise by nearly 14 per cent over the previous year. The overall deficit, in a budgetary sense, for 1975-76 is thus around Rs 468 crores; the net bank credit to the government sector, monetary measure of the deficit, was Rs 531 crores. The budgetary receipts for 1976-77 are placed at Rs 20,624 crores and disbursement at Rs 20,982 crores with a budgetary deficit of Rs 358 crores.

But the net bank credit to the government sector would have expanded in 1976-77 by about Rs 938 crores. According to the vote on account budget 1977-78 of the central government, as presented in March 1977, there is an *ex ante* deficit of Rs 652 crores exclusive of the special borrowings of Rs 800 crores of foreign exchange from the RBI. This would go up considerably on account of the following factors: (a) a rise in the food subsidy due to the rise in the (support price) of wheat from 105 to 110, (b) additional dearness allowance payments if prices continue to go up as of now and CDS is abolished. The budget has targeted for a net borrowing from the market of Rs 890 crores. Many of the state governments gave up on the eve of March election a number of tax and non-tax revenues. The recovery of state loans from the borrowing parties will also be considerably less.

overall deficit

The overall deficit of both the central and state governments during 1977-78 may easily exceed Rs 1,000 crores and net bank credit to the governments may exceed Rs 1,500 crores. There is monetary expansion potential of a high order if steps are not taken to reverse the budgetary prospects. Assuming that overall disbursements would be of the order of about Rs 22,000 crores during 1977-78, a five per cent across the board cut in all disbursement would yield a saving of about Rs 1,000 crores. Secondly, the Plan outlay for 1977-78 in the central budget shows a rise from Rs 4,090 crores in 1976-77 to about Rs 5,033 crores during 1977-78. A 10 per cent cut (in non-essential items) of Plan outlay would yield an extra saving of about Rs 250 crores. Since the Plan priorities have to be recast, there is room for curtailment or postponement of portion of the large outlays earmarked for heavy industry sector.

There is room for a fresh look on various subsidies together amounting to Rs 1,000 crores. For example export subsidies can be cut by half without much detriment to the national economy. Expenditures on foreign embassies and on perquisites at the ministerial level at home and cuts in administrative items particularly in administrative construction outlays, can yield economies.

We commend for adoption the technique of *Zero Budgeting* on all government outlays and at every layer. The concerned spending agency, or department, is requested to reason against the case as to why the entire budget-head should not be dispensed with. Each wing will then come out with possible economies and fresh winds of thought will blow all over the government. The sheer routine-like manner in which outlays repeat and accelerate by a margin year by year will cease.

fresh tax effort

The governments may resort to the mopping up of about Rs 500 crores by fresh tax-efforts. Pressures to reduce excises except in regard to agricultural inputs like fertilisers should be strongly resisted; nor should the government announce any further reduction of the minimum income-tax exemption limit, nor should the government reduce any further tax-rates on higher incomes. As a principle any reduction in tax-rates or tax-exemption limit should always be coupled with provision for reliefs only in case a major portion of the reduced amounts go in for savings in prescribed channels. This order of additional taxation is not very high and would amount to less than 0.8 per cent of the estimated national income of 1977-78.

The budgetary policy suggested will yield a surplus of about Rs 750 crores during 1977-78 on the fiscal operations of both the central and the state governments. Since we expect a reduction of at least Rs 250 crores in the net market-borrowing by governments, the net bank credit to the government sector should show a decline of about Rs 500 cror for 1977-78.

The total accumulated compulso deposits with the authorities may curre tly amount to about Rs 1,500 crore Since wholesale prices of essential co modities are continuing to rise and t consumer prices also are continuing rise, one can reasonably expect that the accumulations will tend to grow in th immediate months ahead. This would b so for some time even if efforts to stabili the wholesable prices succeed, for th consumer prices will continue to be risin for at least one quarter thereafter. Th collection of compulsory deposits hav affected the real income and real balance status of more than 16 million workers

effect of CDS

Since the current real-incomes and rea cash balances of organised workers ar going down, also because of the CDS it i natural to understand their resentment In a period of rising prices, the CDS has the following effects: (1) It reduces the size of the potential budgetary deficit o the governments and the expansion i credit to the industrial-commercial sector. (2) Since the amounts are immobilised with the authorities, the expansion of money supply, and in particular of currency, which would have occurred had these amounts been brought into circulation again is kept down. (3) Since the CDS is collected largely from organised workers, it helps to restrict the demand pressures on essential consumption commodities and even on some conventional necessities.

Whatever one's views on whether CDS was the best method for immobilisation of money, it is clear that its discontinuance *at this stage* would imply a considerable enlargement of the size of the budgetary deficit, and would consequently add massively to the expansion in money supply; credit supply to the commercial-industrial sector too will tend to expand. Secondly, the return of the funds would put in the system more than a thousand crores of active money in circulation, of which currency, which is high-powered money, would form a major part, and prices of essential commodities would just shoot up. Though a small portion of

total workers would benefit in mone-
y terms by the return of the funds,
rest of the community would be
ced under great distress by the step-
se rise in prices that would follow.
sides, even the monetary benefits to the
rkers would be considerably reduced
cause of the currently rising prices and
the step-wise rise that would follow
om the disbandment of the CDS. We,
erefore, submit that a final decision on
e CDS be postponed for some time.
the meantime, since the CDS is rather
rsh on the relatively lower-wage groups
the organised sector, it may be modified
r these groups; our suggestion is that
r groups whose emoluments per annum
e less than Rs 3,000, only 25 per cent
f the increase in dearness allowance,
ould be compulsorily deposited and for
oups which earn between Rs 3,000 to
000 only 40 per cent of the increase in
earness allowance should be compulsorily
eposited.

maintaining credibility

The CDS in this form may be
ontinued, say, till the end of the current
scal year, and the new government be
iven an opportunity to see whether it
an hold and bring down the price level,
hrough a determined set of anti-inflation-
ry package of measures. In order that
he workers are assured of the credibility
f the government's programme, it is
ecessary that the new government
ust announce this package asserting its
letermination to reverse the inflationary
rocess. The goal of a 10 per cent drop
n the level of prices over 1977-78 which
ve have suggested should prove to be a
neasure of re-assurance to the workers.
There is considerable amount of moral
ersuasion that is necessary on the part
f the leaders of the new government to
nake the workers acquiesce in the con-
inuance of the CDS. At the same time,
oan facilities on the backing of the
ccumulated CDS to the credit of the
workers may be made easier. Since the
workers would be incurring some sacrifices
n the national interest, the salaried
employees subject to income-tax too will
have to bear with compulsory deposits
of a portion of their incomes. We also
suggest that 25 per cent of dividends be

Time has now come to move further upwards the entire interest rate structure in order to promote savings, augment resources of the organised financial institutions, attract foreign funds and restrain speculative holding of inventories.

funded, till next year, in the form of compulsory deposits. Under no circumstances should the funds under CDS and the dividend-limitation scheme be utilised for government purposes.

Assuming that net bank credit to the government sector will be planned to decline over the next financial year by about Rs 500 crores and that the authorities will be able to get over immediately the embarassing fiscal and monetary problems that would be caused if the CDS is to be abolished and the funds returned, one can turn to the other major source of monetary expansion, viz, expansion of credit to the industrial-commercial sector. Bank credit to this sector has been expanding at a rather alarming rate. Over the financial year 1976-77, the expansion has been of the order of Rs 2,747 crores. A major portion of this is not for food procurement. One blanket suggestion that we put forth is that over 1977-78 there should be a ceiling on expansion of credit to the commercial sector not beyond six per cent above the level reached by end-March 1977. This would place an outside limit of Rs 1,000 crores as the incremental funds available to this sector over 1977-78. The six per cent expansion-provision takes into account the needs of growth of industrial production.

FCI's requirements

We expect that the Food Corporation's operations will not involve heavy drafts on the banking system during 1977-78. The level of stocks with the corporation is high; assuming that sales will be effected during the year at a higher rate than in the previous year larger cash will flow to the corporation. Even if the loans are partly returned to the banks, the overall net borrowing commitment by the FCI may not be large. The government's policy of abolition of zones and of greater scope for private trade in the lifting of stocks from the farmers may help to reduce the dependence of the FCI upon the banking system.

Let us summarise briefly the impact of our suggestions on monetary stock. Net bank credit to the government will be negative by Rs 500 crores (as compared to an expansion of Rs 938 crores over 1976-77), bank credit to the industrial-commercial sector will be expanding on the limit by about Rs 1,000 crores. The monetised portion of exchange-remittances will be about Rs 500-700 crores. The aggregate of these expansionary sources will amount to about Rs 1000-1200 crores; the growth of the deposits, the contractionary factor, may be placed at about Rs 1500-1750 crores (less than the Rs 2,393 crores expansion in 1976-77, because of the impact of restrictionist monetary-cum-fiscal policy). The increment of non-monetary and impounded liabilities may amount to about Rs 250-300 crores or so. We would thus get a contraction in money stock by between Rs 550-800 crores i.e. a reduction over 1977-78 by four per cent to five per cent.

credit expansion

The ceiling of not more than six per cent on expansion of credit over the year 1977-78 has to be achieved partly through changes in interest rates, partly through general quantitative restrictions, and partly through selective controls. The February 1974 economists' memorandum had suggested a rise in the general level of interest structure including the yield rates on government securities. A time has now come to move further upwards the entire interest-rate structure. This is necessary in order to promote savings, to attract financial resources to the organised financial institutions, to attract funds from abroad, to restrain speculative holding of inventories and unproductive expenditures, and to make the financial institutions and the government sector depend more and more upon non-inflationary sources of finance like loans from the households. The following 8-point programme is outlined in regard to interest-policy:

(1) All ceilings on lending rates should go. There are at present ceilings on the

bazar-bill rate, on key lending rates by commercial banks and on dividend/ interest rates fixed by the Controller of Capital Issues and on rates on deposit collected by companies. Such ceilings distort the flow of funds in the market and give room for off-the-counter transactions.

(2) It is time that bank rate is again moved up say, by about two percentage points.

(3) Deposit rates should go up by between 1½ to two percentage points.

(4) Rates on small savings should also be moved up by 1½ to two percentage points.

(5) The prime-lending rates of term-lending institutions should go up by two percentage points.

(6) Yields on government securities which are currently ruling at between 5.20 to 6.04 per cent should be moved up by about three to five percentage points to reach a base level of between nine to 10 per cent.

(7) The treasury bill rate should be moved up to the level of the call rate, and a convention should be observed that the treasury bill rate should be equal to the average of the call money rate over the last 3 months.

(8) All interest subsidies to favoured sectors should be abolished at the level of the financial institutions. There should be a National-Interest-Subsidy Commission at the centre, with representatives from concerned ministries and relevant state government agencies, looking into and deciding quickly on whether drawbacks should be given to the particular parties, on the basis of specific applications, and the guidelines on the government.

sizeable gap

A study of the pattern of sources of the flow of financial funds indicates that in each of the five-year Plans there has been built into the financing-process of the government sector a sizeable gap between investment and savings, the bulk of it, nearly 60 per cent in recent years, being financed from the banking system and inevitably through the mechanism of credit-expansion, whose counterpart is reflected in the expansion of monetary 'resources' consisting of deposists and currency. Similar too is the financing process of investment in the private corporate sector, where dependence upon the banking system has been of the order of between 40 per cent to 45 per cent. The ratio of incremental credit to incremental net physical assets has sharply gone up; currently it is about 25 per cent whereas in earlier years it hovered around 15 per cent and less. That the mere proliferation of financial institutions in no way contributes to a rise in the savings to income ratio is attributed by the fact that, as noted by the Central Statistical Organisation, no rise in marginal saving to income ratio has taken place since the beginning of the sixties, though as noted by the authors of the paper on 'Flow of Funds Accounts' in RBI's Occasional Papers No. 2, the financial intermediation ratio has gone up from 47 per cent in the third Plan to 68 per cent in the period 1969-70 to 1971-72.

stationary ratio

The RBI authors' study also points out that the new issue ratio, the ratio of new issues by the non-financial sectors, to increase in net physical assets, has remained almost stationary at between 65 per cent to 63 per cent. The non-development of the market for new issues in which subscriptions from largely households are tapped by both the government and the private corporate sector is largely due to the very policy of promotion, and at rather low interest-rates of easy access to the banking system and to the other financial institutions. In so far as the government sector is concerned there is a virtual captive market from which it obtains subscriptions to its borrowing programmes. Our recommendation to gear-up yield rates, and other interest-rates and to abolish ceilings on dividend rates and on rates on deposits of companies may prove to be a major step in the development of market from households for new issues of both the public and the private sectors.

There are certain fundamental changes in regard to macro-credit-planning that we suggest in order to reduce, over the next few years, the proportion of dependence of government sector and of the industrial-commercial sector upon the banking system and the financial institutions deriving funds from the banking system. At the same time the inflationary effects of bank-credit should be overcome. The following guidelines are offered:

the guidelines

(i) The amount of medium-term revolving-credit and long-term credit and investment in government securities as a proportion of 'monetary resources' should not exceed the proportion of time-deposits to total such resources. At present the time-deposits are about 42 per cent of total monetary resources whereas the proportion of term credit revolving-credit and investment in government securities to total monetary resources is perhaps near 60 per cent.

(ii) Till the above objective is achieved short-term bank-borrowing by industrial-commercial sector, overall, should not exceed 30 per cent of the ratio of inventories to value-added. This is because currently about 60 per cent monetary resources are corresponded by non-supply augmenting and non self-liquidating lines of credit. The average velocity of monetary resources is about three. The ratio of value-added to inventories in industry is about equal to unity. It follows that only a small portion of credit is self-liquidating and credit creates more demand than the supply it generates. Hence, until the guideline (i) is fulfilled, the ratio of bank-borrowing by industrial-commercial sector to inventories should be kept low, at less than 30 per cent compared to the 1974-75 ratio of above 45 per cent. Gradually as guideline (i) is achieved, the above ratio should be allowed to go up.

(iii) Revolving loans should be discouraged or subject to penal rates.

(iv) Government borrowing as a rule should be avoided during the busy season.

(v) Term-lending financial institutions should be discouraged strictly from looking to the Reserve Bank of India for any direct or indirect financial assistance.

(vi) Non-bank financial institutions should not enter the call market as suppliers of funds. The function of monetary policy is vitiated by this. Commercial banks should be dissuaded

from entering the market for treasury-bills.

Given the quantitative ceiling on credit expansion and the gradual operation of the above six guidelines, we may do away with the process of detailed firm-by-firm credit scrutiny by the Reserve Bank of India. The initiative and responsibility in this respect must lie wholly with the commercial banks. The Reserve Bank of India should be concerned with overall matters. Our suggestion will imply that the element of scope for corruption and favouritism at the highest layers will be done away with. The officials of the RBI should not, in any way, be implicated in the matter of loans to different parties. Besides, decisions on monetary policy can be taken without the knowledge of which parties, or type of parties, are likely to be benefited or adversely affected.

healthy development

The 8-point interest policy suggested earlier and the six guidelines for macro-credit-planning will contribute towards a healthy development of different segments of the market in loanable funds. The new issue market will breathe vigorously again. The savings process will get a life. As also pointed out earlier the savings process will be considerably boosted both because of the hike in interest rates and of the pursuit of non-inflationary path of development. Some further measures to boost savings are:

(i) 60 per cent tax-relief to household-savings in prescribed forms.

(11) Tax-relief to retained profits of business concerns.

(iii) Complete tax-relief to savings in the form of increments in provident funds, in increments in special categories of deposits, and in savings in the form of subscription to bond-medallions (see below) and in certain specified contractual savings categories.

(iv) The floatation of 10-year tax-free index-linked loans from the rural areas through gold-plated bond-medallions (10 rupees per piece as described in 'SEMIBOMBLA'). The index-linking provision will apply both to the principal and interest. The rate of interest which will be compounded will be 12½ per cent per annum. The issue of these medallions through bank offices and treasuries would enable the authorities to mobilise a considerable portion of the cash resources with the public. A rough estimate is that each year a sum of Rs 300 to Rs 500 crores can be recycled in this manner.

If the older pattern of bonus payments is to be restored, 50 per cent of the bonus of all categories of workers, above a presumed minimum amount, should be lodged with respective companies, concerns or enterprises and interest paid on these amounts at the rates that are paid on long-term fixed deposits by nationalised banks.

There is considerable argument in the economy about the payment of bonus to sections of the organized working class. It is agreed the level of real wages of the workers in the organized sector is low from an absolute point of view and, further, has not shown any perceptible rise. But in comparison with the workers in the unorganized sector in urban and in rural areas and the low-income farmers and agricultural labourers, the real wage of the organized sector's employees cannot be said to be low.

'deferred wage'

However, the system of payment of bonus has come to prevail for certain categories of workers and the denial of bonus is deemed as the denial of 'deferred wages'. The workers in the organized sector who receive bonus have some responsibility for those who do not receive bonus and to those whose wages are very low or to those who are unemployed. After all the success and failure of firms are interdependent, but, if the older pattern of bonus payments is to be restored, it is suggested that 50 per cent of the bonus of all categories of workers, above presumed minimum amounts, be lodged with the respective companies, concerns or enterprises as a contribution made to the deposits of that concern and interest be paid on the above amount at the same rate which is paid on the longest-term fixed deposits by nationalized banks. These deposits may be insured by the Deposit Insurance Corporation so that the workers feel secure about the amounts lodged as deposits, besides the interest amounts be freed from any tax liability.

Another suggestion which should be worth considering is to treat 50 per cent of the emoluments of employees drawing a salary of more than Rs 3,000 as a compulsory contribution to the deposits of the enterprise in which they are serving. These deposits may be treated as a special category of deposits, be insured and the interest paid on them be the same as the longest-term deposits in nationalised banks. The interest amount be free from tax liability.

foreign exchange assets

The aggregate foreign exchange reserves excluding gold which amounted to Rs 839 crores by the end of 1974-75 had increased to about Rs 2,828 crores by the end of 1976-77. The net foreign exchange assets of the banking sector which had amounted to Rs 392 crores by the end of 1974-75 had moved up to Rs 1,078 crores by the end of 1975-76 and to about Rs 2,500 crores by the end of 1976-77. What exactly are the reasons or the factors responsible for this phenomenal increase? During 1975-76 the value of exports increased by 18 per cent whereas that of imports by 14 per cent; during 1976-77, however, whereas the value of exports increased by 22 per cent, value of imports decreased by six per cent. The level of food imports was considerably reduced during 1975-76 and 1976-77. The firm action taken against smugglers and the set of measures taken to officially regularise black incomes through the voluntary disclosure scheme, the relative strengthening of the domestic value of the rupee, the large migration of personnel that took place particularly to the Gulf countries consequent upon the hike in the price of oil, and the increased spending power of the oil kingdoms have all helped to improve our situation in regard to foreign exchange reserves.

The phenomenon of under-invoicing of exports and of over-invoicing of imports has become less important. It appears that formerly considerable remittances used to occur through non-official channels and involved sometimes the exports of smuggled articles to India. There is some evidence that the value of smuggled imports came down statistically. This

must have plugged the leakage in foreign exchange accruals to official channels. The steady accrual of exchange remittances at between Rs 100 and Rs 120 crores cannot be taken for granted, unless action against smugglers continues with the same vigour and the Indian rupee continues to obtain a premium for Indians abroad as a financial asset, *vis-a-vis* other currencies. To the extent that the rupee gets weakened because of domestic inflation, the remittance would tend to go down.

blocked deposits

It is possible for inward exchange remittances to be kept largely in the form of blocked deposits. In order to ensure that such measures do not imply stoppage of inward remittance, one may accord higher interest rates on such blocked accounts of private parties. Secondly, the authorities have the power to offer selectively a higher conversion rate between exchange and rupees for those portions of remittances, which are held in the form of blocked accounts; such blocking measures, however, need not be very rigid. As suggested earlier, the authorities may offer higher rates of interest on time deposits so that potential resources, which will be kept in a monetary form, are transferred to a non-monetary form.

The easiest way by means of which the economy can retain the accretion in inward remittances, but at the same time erase the monetary effect thereof, would be to lift the ban on gold imports. Historically, gold imports have been a convenient way by means of which the Indian economy has utilized its export surplus with nil effects on the monetary process. In fact, India had made itself immune to the effects of international inflation by the propensity of its citizens (to the dismay of western economists!) to use a portion of the export surplus for the imports of non-monetary gold. Along with some of the measures which have been outlined earlier, the authorities may also experiment by lifting the ban on the imports of gold. In fact such imports can be arranged through nationalised banks, and we may further make it convenient, particularly for the rural sector of the economy, to obtain loans on the collateral of gold. Thus we would have achieved two goals with the same measure; we would have insulated ourselves from the impact of international inflation and, secondly, we would have provided enormous opportunities for the expansion of rural banking operations.

We may now refer to the issue of exchange-rate policy. This issue is linked with the question of the extent of priority which we can accord to the development of exports *per se*. Export-development, beyond a stage, in a poor country has severe adverse consequences on the domestic availability of essential consumption goods particularly in the context of a persistent and long-run tendency for international inflation.

A country like India has considerable export opportunities in the sphere of agriculture and related goods; however, these goods are consumption necessities at home as well. If prices abroad are rising faster than prices at home, and there is also an income-distribution change in the rest of the world due to terms-of-trade alterations and consequently external demand for these necessities goes up, there will be two effects. Domestic supplies will be reduced and their prices go up; and prices of related goods too will go up. Secondly there will be an inflow of exchange leading to monetary expansion at home. This would aggravate the price rise. The situation will go on till domestic prices catch up with international prices. Market-determined exchange-rates, our exchange-rate will first tend to go up and then to go down. In the process the domestic economy will be getting disturbed and the rate of inflation at home will correspond to the rate abroad.

gold imports

In this context our recommendation for free gold imports helps to insulate the economy from the monetary effect. The domestic supply-deficiency effect will not get rectified particularly as domestic supply elasticities are rather low and a long time lag may be necessary before adjustments in supply are brought about. But it is important to note that so long as monetary factors are held neutral, viz., money supply is not increased, the price-raising effect due to supply restriction will be moderated. But some price-rise will occur and this has to be prevented. *This is the reason why we need quantitative restrictions on exports*; such restrictions are all the more necessary if money supply is expanding. We cannot therefore dispense with export quotas and keep such quotas flexible.

Granted we need quantitative restrictions on exports (or through export-duties) can be dispense with import quotas (and import duties)? We are afraid this is also risky. For, while we are for experimentation with free gold imports, we are against doing away with import-licensing; we would like to have freedom for gold-imports; but not for imports of luxury goods.

trade policy

Thus we have the following guidelines on trade policy: (1) Export quotas, which are flexible depending upon contingencies. (2) Free imports of gold. (3) Continuation of import quotas, again flexible subject to contingencies. All these presuppose that we do not want the introduction of an autonomous floating rate for the rupee. We should have managed floating with the concomitant policies of quantitative (or other) restrictions on trade. The central desideratum is to insultate the Indian economy from the spread effects of international inflation.

For the present and may be for some more time, it is necessary to place an embargo on the exports of commodities which are scarce and which enter into the wage-goods basket. Exports of food articles, and of process materials which enter into the manufacture of food articles, need to be severely restricted. We may mention that barring tea, spices and cashew-kernels, the exports of all the other food articles, of oilseeds, crude animals and vegetable materials, need to be regulated; the export of sugar as also of tea and coffee may have to be restricted.

What should be the policy regarding the use of exchange reserves? The February 1974 memorandum had suggested that free reserves should be about 50 per cent of value of imports. Reserves serve a number of purposes: (1) they enable the country to tide over lags in the foreign trade process, (2) they provide a backing, though not

gally, for the supply of money, (3) they rengthen the exchange-rate and prevent ctual or potential speculative flights of xchange and of capital, (4) they serve as fund for sudden contingencies in regard o the need for large-scale imports, say of oodgrains, and defence materials, and 5) they enhance the international credit-worthness of the country. Taking these bjectives we do not think that the cur-ent level of free exchange-reserves is ex-cessive.

forward purchases

The authorities may however use Rs 500 to 600 crores worth of reserve *above* the 50 per cent ratio, for (a) forward-purchase of oil, and grains; (b) serving as a cushion for some borrowings in the international market, and (c) investment in well-chosen international portfolios. We recommend the formation of a consortium of our financial institutions as an 'International Investment Corporation' whose object will be to make use of a portion of the reserves for appropriate balanced investments in portfolios of foreign governments, foreign financial institutions and foreign investment companies. The yield obtained on such investment will be a useful source of additional exchange. The above corporation may also help Indian nationals and Indian firms through loans in their exchange-needs investment ventures abroad.

What should be the role of the public distribution system in the task of containment of inflation? The February 1974 memorandum's suggestions are still in order. Except in regard to wheat this year, our stocks of critical wage-goods are not adequate to expand the coverage countrywide. The public distribution system's coverage being so narrow and the supplies being so fluctuating no wonder that no negative relation between the issues through public distribution and the prices of foodgrains is perceived in econometric tests. On the other hand since recently there has been a heavy draft on the banking system for credit, and the stocks have been growing, currently amounting to about 19 million tonnes, the fear is that itself has been a contributory element to the current inflation. A vast amount of currency has been pumped into the rural areas, and part of the balances must have reconcentrated with rich farmers, traders or indigenous money-lenders. The organised financial institutions and even the cooperative movement has not been able to recycle even a part of these funds. There is therefore a great danger in building up of public stocks through the process of credit-expansion. One suggestion is that, henceforth, the finances for the public distribution system should be obtained through a special central surcharge on excises, and through agreement with the state governments, a levy on sales-tax revenues; the burden on each state may be partly adjusted after noting the extent of assistance it receives through the public distribution system.

A stock of about 16-18 million tonnes of foodgrains is an adequate buffer against the prospect of crop failure. The rest of the stock of between four and six million tonnes is available on a once-over basis as a source of supply to meet the food-for-work scheme.

grain stocks

What about the use of the 'large' grain stocks for purposes of expanding employment? The total stock may amount by end of the rabi reason to about 21-22 million tonnes. So far the highest amount distributed was in 1965-66 and 1966-67 when the issues each year amounted to about 14 million tonnes. Since those years, population has expanded by nearly 12 crores. There is no reason why crops should not fail, and for more than one successive year, as badly as they did during the middle 60's; we would think that a stock of about 16-18 million tonnes is an adequate buffer against the prospect of crop failure and for more than one year in succession. The rest of the stocks of between 4 and 6 million tonnes is available on a once-over basis as a source of supply to meet additional demands if a food-for-work scheme is adopted. The projects may have to be of one year gestation and the new employment may terminate in a year. Further there will be additional demand pressures on non-food wage-goods which are rather scare.

Distributional channels will have to be built at or near project-sites. Assuming at a retail level the cost of say 5 million tonnes of wheat is about Rs 750 crores, and that somehow the non-food wage-goods of Rs 570 crores or so and other materials for projects will be provided, that at the wage-rate of about Rs 4 per day labour is available, and sufficient short term gestation period, low skill-intensive projects are available, about 11 million person-years of employment can be provided. On the assumption of an income-velocity of about 5, the additional money required would be about Rs 360 crores. (It is assumed that 40 per cent of the wage-outlays are corresponded by expenses of materials for projects.) Over the year, the finance requirements would be of the order of Rs 1,820 crores. By working out in detail, the requirements of non-wheat wage-goods and of project-materials arranging for their supply, and by obtaining a sheaf of worthwhile short-gestation projects, we may use the grain stocks of about 5-6 million tonnes profitably in a work programme for about 11 million person-years. The new Planning Commission may take up this as a challenge. There has to be additional saving to the extent of Rs 1,170 crores which may be less to some extent if the consumption-savings multiplier is in operation. We are against the pumping in of additional money for this purpose. The crux of the challenge is the provision of this amount of extra savings.

not in a huff

We are emphasising the matching-savings part of the programme of the food-for-work scheme because unless careful thought is given to this, in a huff of impatience and lack of economic wisdom, considerable deficit financing may occur with aggravating effects on inflation and with no significant contribution to output. It is necessary to integrate the above type of scheme with the recasted Plan which may begin from 1978-79.

We now turn our attention to certain immediate changes in Plan priorities such that investment proportion in essential

wage-goods is drastically raised and the rate of growth of productivity thereof boosted. The planning process, as in vogue in India, has been a great source of disillusionment. Despite nearly three decades of planning, the position in regard to per capita availability of essential wage-goods has not shown improvement; this position has been actually worsening during the decade commencing with the sixties. Unemployment among the educated and the functionally literate has grown phenomenally whereas no dent has been made on the problem of concealed unemployment in the rural areas. Except for the brief interregnum from September 1974 to March 1976, the price level has been rising, actually galloping, during the seventies. Since inflation has been rampant and the per capita supplies of essential wage-goods has been deteriorating, there is every reason to believe that absolute poverty has increased since the 60's and even during 70's. The proportion below the poverty-line, in all probability, has also been steadily going up.

full employment

In line with the Janata party's manifesto, the new prime minister has committed his government to the attainment of the goal of full-employment, as interpreted under Indian conditions, and the abolition of destitution within a period of 10 years. Removal of abject poverty and the provision of work for all can be considered to be the long-term economic policy goal(s) of the new government. The prime minister has also stated that the required readjustments in the pattern of priorities in our Plans will be worked out and carried through. For the present, let us treat abolition of destitution and the attainment of full-(formal) employment as a joint objective to be achieved integratedly and simultaneously. During the next few months the economic machine will have to be re-geared to achieve this joint objective. There are a number of administrative and organizational hurdles to be cleared. The remainder-components of the fifth Plan, now in process, have to be wholly reshaped.

The fifth Plan, as is well known, had three objectives. These were, self-reliance, growth and social justice. The relative weights for each of these three goals had not been spelt out. The goals of abolition of destitution and of employment growth had not been integrally woven into the structure of allocations and the pattern of priorities of the fifth Plan. The 20-point programme obviously included some efforts towards the eradication of the poverty of some specific sections in the community. But the big conflict between the long-term direction of the efforts of the fifth Plan and of the immediate and short-term objectives of the 20-point programme never got resolved. For example, the fifth Plan had locked up huge blocks of resources for the expansion of the heavy industry base of the economy.

'core' sector

Though, at the political level often the term 'core' sector was interpreted as including agriculture, in the fifth Plan document itself this was not the case. This becomes obvious in as much as the pattern of priorities of the draft fifth Plan and of the final fifth Plan was not very different, and the structure of outlays in these documents was not very different from that of the preceding five year Plans beginning from the second Plan. Besides, the fifth Plan's method of financing was heavily inflationary; in the 20-point programme, containment of inflation was the first point.

There is therefore considerable fresh work to be done in the matter of the working out of the investment and commodity-wise input-output implications of the new priorities. A traverse from one structure of objectives to another structure is not easy, particularly as a major redeployment of resources will be required. Since the new government is committed to the joint objective as stated earlier, the traverse has to be accomplished, and as quickly as possible. The new efforts therefore will have to be in terms of formulation of a structure of ideas and of imposing this new structure on an existent, ongoing, but rather different structure.

The redesigning of the priorities, if this has to help towards the attainment of the joint objective, has to follow the sequence as given below:

i) A major shift has to take place in the pattern of investment in favour of agriculture, forestry, fishing and animal husbandry. The emerging output-composition of the economy, year by year, has to be visualised as connoting an increasing absolute *and relative* share of the above items in total output. The final outputs, and inputs-materials produced by agriculture and the closely related sectors have to grow, in the years ahead, *for a decade at least*, at a minimum rate of five to six per cent, roughly about $2\frac{1}{2}$ times the present rate of growth of population.

Massive investments is required in (a) irrigation, major, medium and minor, (b) rural electrification, (c) livestock and dairy development, (d) infrastructure in road and transport-media, warehouses, communication channels, flood-control and drainage facilities etc., and (e) social infrastructure like primary and basic (including adult) education, higher-education outlets like supplies of agricultural and veterinary graduates, rural health and sanitation, rural water-supply, educational and training facilities consisting of libraries and craft-centres. Currently private and public sector net investment in and on agriculture is about four per cent of the value-added thereof.

redesigning priorities

Whereas in industry, particularly corporate industry, the total net investment has varied between 40 per cent and 100 per cent of the value-added in it, nearly 60 per cent of the finance has come from outside financial sources. The redesigning of priorities must imply a minimum of 45 per cent of investment allocation towards agriculture and closely related lines. The plough-back as a share of value-added must be raised to about 15 per cent to 20 per cent; given an integral investment-output ratio of about 3:1, the average growth-rate in agriculture and related lines will eventually go up to above six per cent per annum, as compared to the current average rate of growth of about two per cent to 2.5 per cent per annum.

ii) Among 'industries', emphasis has to be placed upon a faster rate of build-up (and absorption) of fertilisers and of

rganic manures, pesticides, agricultural nplements and tools.

iii) Since the supplies of inputs from griculture would be growing at a rate aster than is the case hitherto, non-agri-ultural wage-goods depending on agri-ulture, like food-processing, cloth, edible ils, paper, matches, other forest-based roducts, etc. will have to be given the eeded priority.

iv) Apart from the above, there are wage-goods not in any major way depend-ng upon agriculture, but nevertheless im-portant in the cost of living, like soap, salt, kerosene, reading materials and accesso-ries, cheap building materials, common drugs and chemicals, etc. which have to get suitable priority.

irrelevant assumptions

If the economy had unlimited foreign exchange resources, if all round develop-ment was not one of the goals, and if planning was to commence on clean slate, the development of above *four* types of activities, at a rate substantially faster than that of population, may alone have been adequate from the angle of attaining the joint objective. These three assump-tions are not relevant for India. Besides, there are considerable indigenous resources which can be absorbed in domestic development. Certain types of heavy or quasi-heavy industries supplying inputs for the development of the above mentioned four categories of wage-goods have been developed, and can be further developed on a *functional* basis. Among the industries which are ancillary to the development of wage-goods, but are only loosely related to the latter are, cement, steel, certain types of machine-building capacities, chemicals etc. Among these, cement and perhaps certain types of chemicals, are important in the required measure. Since transport and fuels are important economic overheads, coal and oil industries are also important again in the needed functional measure. The steel industry is also important but in the same qualified manner.

But we must remember that in the past, Indian planning has been geared to development of heavy industry largely as an end in itself. The postulated growth rate in each of the Plans for the heavy

High rates of growth of heavy industry and very low growth rates of agriculture and related wage-goods have been a characteristic of Soviet as well as our own development process. Growing poverty is very much the cause of mal-development in India. This must not recur in future.

industry sector has been autonomously, and not functionally, imposed. Naturally Indian plans have a high weightage of emphasis on heavy industry. What the wage-goods model requires is not the exclusion of heavy industry *per se* as such but the exclusion of these heavy industries and portions thereof, and of their levels and growth rates of growth of wage-goods. Some amount of steel and a positive rate of expansion of steel and such inputs *are* necessary concomitants of the wage-goods model.

With wage goods as the central 'end product', the relative emphasis on new investments for the heavy sector would undergo a drastic change. A careful study of the Soviet development process and of our own experience reveals that a consi-derable segment of heavy industry outputs create mutual demands for each other. Provided foreign exchange and wage-goods for the workers in the heavy industry sector are given from elsewhere, the heavy sector can go on expanding at a high rate, such expansion nevertheless not being related, either today or tomorrow, to the production of wage-goods.

receding goals

High rates of growth of heavy-industry and very low growth rates of agriculture and related wage-goods have been a characteristic feature of the Soviet experience and of our own development process hitherto. At some stage in both countries, the goals of employment-expansion and poverty-eradication receded into the background; this was perhaps tolerable under Russian conditions but certainly not so in India. In India, grow-ing poverty is very much the cause of *mal-development*. Whatever has happened in the past, this must not recur in the future. Finally one might mention the specific requirements of the defence sector as of overriding importance. Similarly some emphasis on the development of predominantly export lines is necessary but, here again, exports are not an end in themselves. The development of the export sector must subserve the basic goal of the fulfilment of the joint objective. Exports procure the foreign exchange needed to speed up the time required for the above objective. That much is their importance and not more.

The full implications of the above model of development is nothing else than an inversion of the existing model: A vast amount of detailed work at the planning level is required before the new structural relationships flowing from the joint objec-tive with the terminal date for its attain-ment can be worked out. The statistical material required in the above exercises is available.

resource mobilisation

The new model of development has implications for the pattern of resource evolution from the centre to the states. It has also certain corollaries in terms of methods of resource-mobilisation. The budgetary processes at the centre and the state levels will have to undergo considerable modifications. Drastic changes are also of course required in the pattern of decision making. The new model decentralises the avenues of deci-sion-making since millions of farm-units at the village level will be vitally involved in the development process. At present, the nerve-centre happens to be at Delhi and other metropolitan centres. A large number of new developmenl centres radia-ting development impulses and spread effects will emerge. It would be great help if a new concrete plan embodying the above ideas spells out also the location impact of the development process. One great advantage of the new model is that the relevant employment coefficients of the new pattern of investment is higher than under the existing arrangements; so too is the value added component per unit of capital. Thus, we will be obtaining, as the new model unfolds, more employ-ment and more output per unit of incremental effort. The new model, the

wage-goods model, would yield a higher rate of growth of output and employment per given savings to income ratio, than does the conventional model, the western model, now in vogue.

In any long-term development process in India some control over population growth is very important. The methods of obtaining this control require considerable care but the goal of obtaining a quasi-stationariness in our population, at about 700 million by about the early 80's should be emphasised. Open and concealed unemployment both are symptoms of abject poverty. By increasing the supplies of wage-goods period by period, at a faster rate than hitherto, and faster, much faster, than population growth, the planning process makes it possible for the new activities to 'suck out' labour from the pressed areas. The labour thus sucked out is ploughed back for new investments and new lines of production in essential wage-goods. The entire process, like a virtuous circle, feeds upon itself.

pattern of investment

Every Plan has a pattern of investment-allocations. It has a pattern of input-output interdependence. It has a specific labour-deployment sequence. It has a matching programme of exchange savings and liquidity supply as well as a scheme of incentives. Finally, and not the least important, it has a pattern of distribution arrangements. All these eight facets compose a consistent model. To work out such a model oriented to the joint-objective is the major economic challenge of the New Planning Commission.

We have outlined above the type of shift in planning emphasis that is required if the joint objective is to be attained. Since the new model depends considerably upon savings, fiscal and monetary policies will have to be redesigned to obtain, period by period, a rising saving to income ratio. This requires virtually a revolution in fiscal and monetary management. And this process must be achieved in the context of either a stable or falling price-level. An overall ceiling on the growth of money supply by about five per cent average per annum follows as a corollary.

The following is a summary of the suggested short-term plan of action to halt the rising trend in prices and to reverse it.

1. The government must announce a target-norm of a reduction in the price level from the current figure of 182 in end March 1977, by about 10 per cent or by about 18 points, over the next two financial years.

2. Over the current year, 1977-78, the stock of money should be reduced by about five per cent in the light of the feasible growth-rate of output of about three per cent during the current year; this would enable prices to be brought down by about four to five per cent over the year. The contraction is to be achieved through (a) a reduction in net bank credit to the government sector by Rs 750 crores, (b) limitation of credit expansion, over the fiscal year 1977-78, to industrial-commercial sector to about Rs 1,000 crores, (c) limiting monetized new exchange-reserves over 1977-78 to about Rs 500 crores, (d) an expansion in time-deposits by about Rs 1500-1750 crores and (e) an increase in net impounded deposits by about Rs 250 crores. For 1978-79, the growth rate in money supply should be targetted at two to three per cent less than the expected feasible growth-rate in real output, as perceivable around end of 1977-78.

3. The fiscal-operations of the public sector must make a sizeable contribution to the goal of a reduction in money supply by a budgetary surplus. We must achieve an *ex-ante* budgetary *surplus* on the combined operations of central and state governments, as reflected in the reduction in the net bank credit to the government sector, by about Rs 500 crores, or as reflected in the conventional figure of overall balance, by a surplus to Rs 750 crores.

4. A five per cent across-the-board cut in all disbursement of central and state governments during 1977-78 amounting perhaps to about Rs 22,000 crores, would yield a saving of Rs 1,006 crores. A 10 per cent cut in non-essential items, including curtailment or postponement pending reconsideration of the large outlays earmarked for the heavy industry sector, would yield an extra saving of about Rs 250 crores.

5. A reduction in the subsidies currently amounting to about Rs 1,000 crores, with a 50 per cent cut in export subsidies.

6. Fresh tax efforts of about Rs 500 crores by both central and the state governments, no reduction in minimum income-tax exemption limits, no reduction in tax-rates on higher incomes. Henceforth, all reliefs should be conditional upon reinvestment of released amounts for savings in specific channels.

7. Net market-borrowings of the governments should be reduced by Rs 250 crores.

8. The continuance of the CDS with some reductions in rates of compulsory collection for groups with annual emoluments below Rs 3,000 and groups between Rs 3,000 to Rs 5,000; the temporary withholding of further repayments; the continuance of the CDS for income-tax payers, with, again, temporary withholding of repayments; 25 per cent of the dividends to be funded during 1977-78 in the form of compulsory deposits.

9. A ceiling of about six per cent on the expansion of bank credit to the industrial-commercial sector over the 1977-78 fiscal year; thus not more than Rs 1,000 crores would be the incremental funds available to this sector during 1977-78.

10. Financing of additional stock-purchases by the Food Corporation through surcharges, on central excises and a levy on sales-tax revenues of state governments.

11. An 8-point interest-policy consisting of, (1) abolition of ceiling on lending rates, on dividend rates and on interest on company deposits, (2) a hike in the bank rate by two percentage points, (3) upward movement of deposits rates and, (4) the rates on small savings, and also of (5) prime-lending rates by $1\frac{1}{2}$ to two percentage points, (6) a drag-up of yields on government securities by three to five percentage points, to reach a level of between nine to 10 per cent, (7) treasuary bill rate to move up and to be made equal to the average of the call money rate of the last months, and (8) abolition of all interest subsidies; the drawbacks to be considered by a separate National-Interest-Subsidy Commission.

12. Following six macro-guidelines in

regard to credit-management: (i) Medium-term, revolving and long-term credit, and investment in government securities be reduced to the proportion of time-deposits to monetary resources; (ii) Short-term borrowing by industrial-commercial sector should not exceed 30 per cent of the ratio of inventories to value-added; (iii) Discouragement, by penal rates, of revolving loans; (iv) Government borrowing not to be undertaken during busy season; (v) Term-lending financial institutions should be prohibited from access to the RBI; (vi) Non-bank financial institutions should not enter the call market, and commercial banks should not enter into the market for treasury bills.

13. Firm-by-firm credit scrutiny by the RBI should be done away with; the RBI to confine itself to overall policy matters in regard to credits.

14. Following measures to boost savings; (i) Additional tax-relief for household-savings in prescribed forms; (ii) Tax-relief to retained profits of business concerns; (iii) Floatation of 10-year tax-free, principal-and-interest-index-linked loans from the rural areas through gold-plated bond-medallions. The interest will be 12½ per cent. Rs 300-500 crores can be mobilised per annum through this source; (iv) Complete tax-relief to savings in the form of increments in provident funds and increments in special categories of deposits, and in savings in the form of bond-medallions and in contractual-savings categories, (v) 50 per cent of the bonus of all categories of workers above prescribed minimum amount to be lodged with respective companies, or enterprises, as a contribution to the special deposits of the concern. These deposits should be insured and both the amounts and the interest amount should be freed from tax liability; (vi) 50 per cent of the emoluments of employees drawing a salary of more than Rs 3,000 be treated as deposits (also insured) for the enterprises in which they are serving.

15. Exchange-dealers converting exchange into rupees should lodge 50 per cent of exchange-remittances in blocked deposits, carrying a special interest rate; both amounts and the interest being index-linked and tax-free; a higher rate of conversion ratio for those portions of exchange which are held in the form of blocked amounts.

16. Four guidelines on trade policy; continuation of export quotas, which are flexible, continuation of import quotas, again flexible; free imports of gold, no free floating rupee; managed floating as of now, with some discretion to fix official exchange-rates.

17. Embargo on export of food articles and other necessary wage-goods.

18. Rs 500 to Rs 600 crores exchange reserves to be used for forward-purchases of oil and grains and for serving as a cushion for some borrowings in the international market and for investment in well-chosen international portfolios. The formation of an International Investment Corporation through consortium of financial institutions, to look after the investment portfolios; the rest of the reserves to be kept for normal purposes.

19. The use of 4-6 million tonnes of grains out of the existing stock for promoting employment through a food-for-work scheme; the scheme being integrated with the new Plan to be recast since it involves need of about Rs 1,200 crores of matching extra-savings.

20. Preparation work on a new wage-goods model plan to begin from 1978-79. with drastic alterations in the structure of plan priorities; about 45 per cent of the net investments to be allocated to agricultural and related lines so as to ensure a minimum of five per cent to six per cent rate of growth in agricultural output.

21. Immediate steps to initiate a constitutional amendment placing on upper limit of five per cent an the annual rate of expansion in money supply as described below.

The Fullmangal Rule

The most important long-term recommendations in the economists' memorandum submitted in February 1974 to the then prime minister was that there should be a ceiling of five per cent on the annual rate of growth of money supply. The *modus operandi* of the far-reaching proposal was not outlined. The political climate and the official economic opinion then was not very conducive, if not hostile, to receiving favourably the above recommendation. Fortunately the political climate has turned turtle and the changes occuring in the stewardship of the economy's key positions gives some room for hope that the recommendation may merit some attention. But it is ultimately public opinion that is the master. In what follows, we have suggested the insertion of a new clause in the Constitution implying the incorporation of a new directive of state policy. We give below (1) a brief preamble, (2) the text of the suggested amendment to the Constitution, and (3) an explanatory note on the suggested amendment. These three are complementary. Thereafter, we have adduced some notes on (a) constituents of money supply, (b) the factors responsible for the contraction and expansion in money supply, (c) the implications of the ceiling, (d) the mechanics of how a scheme can be worked out, and (e) a reply to some possible objections.

Preamble: The effect of incorporating the following clause in our Constitution is that the Indian economy will forever be freed from inflation and the consequent mal-effects on the economy, in the form of maldistribution, social injustice, disincentive to savings, frictions in industrial relations, discouragement of exports, etc. This suggestion was contained in the memorandum of more than 140 economists from more than 50 universities and research institutions submitted to the then prime minister in February 1974.

We shall term this rule as the FULLMANGAL Rule, the term, FULLMANGAL being an acronym made up of appropriate letters from the following, Five percent Upper Linear Limit on Money's Annual Growth-rate as per Law.

Amendment : (i) The suggested addition to Part IV—Directive Principles of State Policy: 43-A: The state shall keep the goal of attainment and maintenance of a reasonable stability in the level of prices as a chief end of its monetary, fiscal,

Announcement regarding issue of Rs. 20 crores 6¼% Debentures (1993
applied for issue and allotment of further Debentures of Rs. 2 crores and guara
This is not a prospectus. Persons interested in details may obtain copies

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THE INDUSTRIAL CREDIT AND INVES

(Incorporated on January 5, 195
Registered Office : **163, B**
Regional Offices : **20, Old Court House Street, Calcutta 700 001 • 1, Cenotaph Roa**

EXISTING AND PROPOSED ACTIVITIES :

The Company was incorporated on January 5, 1955 with the object of carrying on the business of assisting industrial enterprises in India, more particularly described in its Memorandum of Association.

The Debentures are being issued for the purpose of augmenting the resources of the Company to meet the demands of industry for financial assistance and to meet the other needs of the Company.

BOARD OF DIRECTORS :

H. T. Parekh (Chairman)
J. S. Raj (Vice-Chairman)
Raghu Raj
K. K. Birla
D. P. Goenka
N. A. Palkhivala
L. J. Mulkern
N. M. Wagle
M. V. Sohonie
M. Sen Sarma
M. D. McWilliam
M. V. Arunachalam
K.P.A. Menon (Government Director)
A.K. Ghosh
S. S. Mehta (Managing Director)
Phiroze B. Medhora (Joint Managing Director)
(On deputation to the International Bank for Reconstruction & Development, Washington D.C., U.S.A.)
N. H. Green (Alternate Director for M.D. McWilliam)
D.A. Artko (Alternate Director for L.J. Mulkern)

SHARE CAPITAL :

(As on December 31, 1976)

	Rs.	Rs.
Authorised:		
15,00,000 Equity Shares of Rs. 100 each		15,00,00,000
10,00,000 Unclassified Shares of Rs. 100 each		10,00,00,000
25,00,000		25,00,00,000
Issued and Subscribed:		
15,00,000 Equity Shares of Rs. 100 each issued for payment in cash	15,00,00,000	
Paid-up:		
15,00,000 Equity Shares of Rs. 100 each	15,00,00,000	
Less: Calls in arrears	7,450	
		14,99,92,550

PRESENT ISSUE :

40,000 Debentures (1993) of Rs. 5,000 each at 97.50% (i.e. Rs. 4,875 each) with a right to retain excess subscription money up to 10% of the Issue to be applied for issue and allotment of further 4,000 Debentures. **20,00,00,000**

Interest at the rate of 6¼% per annum (subject to deduction of tax at source) will be payable half-yearly on May 1 and November 1, except that the first payment of interest accrued from the date of receipt of application upto November 1, 1977 on the Debentures alloted will be paid on November 1, 1977.

h a right to retain excess subscription up to 10% of the Issue to be
s repayment of principal and payment of interest by the Government of India.
s from the Registered Office or the Regional Offices of the Company.

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T CORPORATION OF INDIA LIMITED

n Companies Act VII of 1913)
tion, Bombay 400 020.
018 • Hindustan Times House, 18-20, Kasturba Gandhi Marg, New Delhi 110 001.

VERNMENT GUARANTEE :

Debentures, now being issued, are guaranteed by the Government of India as to the repayment of principal and the ment of interest thereon at 6¼%. The Debentures will not, however, entail any charge on the assets or the ertaking of the Company.

Debentures will be considered as approved security under the provisions of the Indian Trusts Act 1882, the rance Act 1938 and the Banking Regulation Act 1949.

Debentures shall be redeemed at par on May 1, 1993.

Company shall have the right to purchase Debentures from the open market and sell the same during the un-expired od of the Debentures.

principal moneys of the Debentures to be issued hereunder and the interest accrued thereon shall rank for payment, n and out of the funds of the Company:

subordinate to present and future borrowings of the Company from international organisations and/or foreign Governments and/or agencies thereof with interest thereon, premium (if any), and any additional amounts payable under such borrowing arrangements;

Pari passu with the 8% Bonds of Swiss Francs 8 million (1977-88) issued by the Company and also with all the rupee term loans both present and future and the Debentures issued and to be issued hereafter, and all future foreign currency borrowings other than those mentioned in (i) above, and interest thereon, premium (if any) and any additional amounts payable;

superior to the outstanding interest-free special loan of Rs. 3.50 crores from the Government of India, which ranks after the share capital.

ch payment will be without affecting the rights of the lenders referred to in (i) above and of the holders of the 8% Bonds 77-88) of Swiss Francs 8 million, the holders of 6¼% Debentures (1990) of Rs 13.75 crores, the holders of 6¼% bentures (1991) of Rs 13.75 crores, the holders of 6¼% Debentures (1992) of Rs. 16.50 crores and the holders of the sent issue of Debentures to take recourse to the Guarantee of the Government of India issued in their favour.

any meeting of the debenure holders, each voter shall on a show of hands be entitled to one vote only and at a poll shall be entitled to one vote in respect of every principal sum of Rs. 5,000 of the Debentures in respect of which he is itled to vote.

the event of over-subscription, allotment to shareholders of the Company who apply for the Debentures will be considered preferential basis to meet the requirements of the existing listing agreement with the Stock Exchange, Bombay. The offer d allotment of Debentures to non-resident shareholders is, however, subject to the consent of the Reserve Bank of India der the Foreign Exchange Regulation Act, 1973.

ATES OF THE OPENING AND CLOSING OF THE SUBSCRIPTION LIST :

e Subscription List will open at the commencement of banking hours on Wednesday, May 18, 1977 and will close at the se of banking hours on Monday, May 23, 1977 or earlier at the discretion of the Directors but not earlier than the se of banking hours on Friday, May 20, 1977.

ROSPECTUS AND APPLICATION FORMS :

plication must be for one or more Debentures and should be forwarded to the Registered Office of the Company together th the payment at the rate of 97.50% of the nominal value of the Debenture i.e. Rs. 4,875 per Debenture. However, for the ke of convenience, applications together with the necessary payment would be accepted by the Central Bank of India at main offices at Bombay, Bangalore, Ahmedabad, Calcutta, Hyderabad, Indore, Madras and New Delhi.

plication Forms along with copies of the Prospectus can be obtained from the Registered Office and the Regional fices of the Company.

ADROIT-1101

production, investment and public distribution policies, and, in order to attain this end, shall conduct its monetary and fiscal operations in such a manner that, over every successive five-year period, the annual average of the financial-yearly rates of growth of money supply shall not exceed five per cent.

Explanatory Note on the Suggested Addition of 43A to Part IV: In the Indian economy, most of rural producers market only a small portion of their crops and also depend upon cash-purchases in the market for part of their consumption needs. Real wages of agricultural labourers, who constitute the predominant portion of labour in the economy, are admittedly low; besides there is a large body of workers in rural areas engaged in crafts, trade and services who also are adversely affected when prices go up. In the urban sector, there is sizeable unorganised labour in industry, in trade and in services. Thus for the bulk of the labour force in the Indian economy there is no automatic adjustment by which, when prices go up, money emoluments are increased.

effects of inflation

Inflation thus tends to turn the distribution of real income against the majority of the producers and workers in the Indian economy. It reduces the real purchasing power of their meagre cash holdings, and since 100 per cent neutralisation does not occur, and whatever neutralisation is so after a lag, it reduces their real wages. Inflation also adversely affects the savers, who invest in various sorts of financial assets like bank deposits, small savings, life insurance policies, provident fund etc. On the one hand, their real emoluments are reduced and on the other their assets appear to shrink in real purchasing power. Inflation also encourages hoarding of scarce commodities and in smuggling of gold. Investment in socially unproductive channels tend to become popular, thus contributing to erosion in tax collections. The external value of the rupee is also adversely affected.

It is for these reasons that the then government of India undertook measures during 1974 to contain inflation; since inflation has again raised its ugly head from March 1976 onwards, the prime minister of the new government which has come to power in March 1977 has expressed his party's commitment to price stability. The threat of inflation, however, is a perennial one. Inflation arises because of the injection of money purchasing power at a rate in excess of the growth rate in supply of wage-goods. Such injection of excess purchasing power is a result of monetary and fiscal policies. It is necessary to protect the majority of the community, which consists of workers, and the partially employed, against the ravages of inflation. One of the sovereign remedies against inflation is to place a statutory ceiling on the annual rate of growth of money supply. After some deep deliberation on this issue, the economists of the country, in their memorandum on a policy to contain inflation submitted to the prime minister in February 1974, arrived at a figure of an average of five per cent per annum over five years as a feasible ceiling on monetary growth under current Indian conditions. The economists also suggested an appropriate pattern of production and public distribution arrangements in regard to essential wage-goods.

The suggested clause thus embodies a wide measure of consensus among more than 140 economists in the different universities and research institutions of the country. The measure suggested has been under wide discussion among economists in different parts of the world now for more than four decades. The Indian Constitution will become a unique document with a built-in effective guarantee for social justice, thrift and inter-temporal equity, if this clause is adopted. The clause is also timely as there is every possibility, in its absence, of the Indian economy being dragged into the world-wide inflationary spiral.

some issues

In the following we have outlined a few notes on the issues touched by the clause. The stock of money consists of (a) currency with the public, (total currency excluding cash on hand with banks) and (b) deposit money with the public consisting of net demand deposits with banks and 'other deposits' with the Reserve Bank of India. Money is a liability of the banking system (the Reserve Bank of India and the commercial banks). Growth of monetary and quasi-mon liabilities of the banking system depe upon (A) the rate of growth of ban credit to the government sector, (the growth of bank-credit to the indu trial-commercial sector (including publ cnterprises) and (C) the growth of foreig exchange reserves of the banking secto The rate of growth of money is obtaine by the deduction from (A+B+C) of (D the growth of time-deposits plus th growth of impounded-deposits.

growth of bank credit

Growth of bank-credit to the gover ment sector depends upon the yearly siz of the budgetary deficit, including in th latter (i) the excess of government's dis bursement on revenue and capital account over the receipts on both the accounts excluding from the receipts, funds obtaine from the banking system and from th disbursements, funds returned to the bank ing system; (ii) funds obtained by sales t the banking system of the governmen sector's holding of securities; (iii) th variation in the cash balances of the government sector over the year.

It is customary in India to calculate the deficit by including in receipts (i) the receipts through borrowings from commercial banks and excluding (ii) and (iii) The RBI's estimate of net bank credit to the government sector approximates to (i) above.

Growth of bank credit to the industrial-commercial sector depends upon the growth in that portion of the working capital deficit of the industrial-commercial sector that is covered by loans from the banking system.

The growth of exchange reserves of the banking system depends upon factors like surplus on trade and invisibles, including exchange-remittances.

The deficit of the government sector depends upon the size of the tax and non-tax revenues and foreign aid, and the extent of borrowing from the non-banking institutions and households. This, of course, given the disbursements. The latter depends upon the scale of government sector's expenditures.

The overall *ex ante* deficit cannot be precisely calculated as of now. This is because the central government's budget

independent of the state governments' dgets, which are all independent of ch other. Besides, there are unforeseen penditure-commitments and commit-ents which are only dimly perceived. ne *ex-post* deficit is generally larger an the *ex-ante* deficit.

At present, what is not covered herwise is covered by resort to the nking system. Besides, net market orrowings are kept quite large.

bank credit to govt.

There is no statutory limit on the xtent of net bank credit to the govern-nent sector, *ex-ante* or *ex-post*. The ecisions to incur expenditures are taken t ministerial and departmental levels vithout reference to the overall deficit. Even at the time of the budget debates, liscussion centres round individual taxes nd rarely on the monetary impact of udgetary operations. The effects of deficits n causing the price level to go up are generally diffused over several interests, of whom the members of the organised sector are partly protected. The inflation reduces the real purchasing power of the disadvantaged and the lower strata which is hardly noted.

For example, between 1961 and 1971 and perhaps around mid 70's the proportion of people below poverty-line went up rather steeply though the relative proportion of people in different nominal expenditure groups remained almost constant. Part of the explanation is that inflation hits the lower strata more adversely than it hits the upper strata. This has been attested by a number of studies.

The suggestion to place a ceiling of five per cent on the average of the annual rate of growth of money supply over a successive period of five years permits some flexibility in growth of money supply in each fixe-year period. In every year, the authorities have to keep the perspective of the next 5 years. Governments, institutions and businesses know roughly how much of credit they can expect from the banking system in the next five years. Since the overall monetary growth is thus constrained, determined efforts will be made to tap other sources of liquidity and finance. In each firm, expenditures will

Between 1961 and 1971 and perhaps around mid-70's the proportion of people below the poverty line went up rather steeply. Part of the explanation is that inflation hits the lower strata more adversely than the upper strata,

be determined on the basis of strictest economy. Governments too will think hundred times before embarking on doubtful ventures and committing themselves to finance any proposition on purely non-economic grounds. Hard decisions on price fixation, subsidies, initiation of new projects, relief schemes, programmes of transfers etc will now be taken per force. Capacity-wastage will be reduced; and business perquisites will be subject to greater scrutiny. Corruption too will get considerably reduced as the facility of easy resort to the banking system has been one of the contributory factors in this respect.

best use

Thus the ceiling will promote the best use of available resources, apart from establishing the prospect of continued price-stability. Savings will be naturally boosted and since part of the high interest on loans represents the adjustment for a steady rate of inflation, the money interest rates in the organised sector may even paradoxically come down.

The rule will have to be implemented by the authorities, who consist of the Reserve Bank of India and the Finance ministry of the government of India. The Finance ministry frames the budget of the government of India and borrows from the Reserve Bank of India through treasury bills and 'market loans'; it can also sell securities to the Reserve Bank who can buy them as part of 'open market operations'. Though ways and means advances are given to the state governments, the Reserve Bank can regulate these advances within strict limits. What it cannot so far regulate is the net bank credit from itself to the government of India. In so far as commercial banks are concerned, they do participate in lending to the governments in the latter's programme of 'market loans'. There are statutory obligations on commercial banks to keep a portion of their assets in the form of government securities; besides, these securities serve as collateral for loans from the Reserve Bank. However, the Reserve Bank can regulate the loans from the commercial banks to the governments if it can permit yield rates to go up and if it can also use to the hilt its powers to vary the cash and other ratios of the commercial banks. Since we live in a planned economy, the implementation of the Rule will require co-ordinated and not conflicting policies between the governments and the Reserve Bank of India.

Under existing law, the Reserve Bank can, if it has freedom to allow yield rates to move up, regulate the volume of bank credit to the industrial-commercial sector. There are some sensitive segments like public enterprises, Food Corporation of India, the export-trade, the cooperative credit movement, small scale industry and agriculture etc, whose dominant borrowing interests would feel aggrieved when the volume of bank credit has to be regulated as per the rule. But the separate problems of those groups will have to be solved through means other than general inflation.

national credit council

The implementation of the rule will require the constitution of a national credit council under the joint aegis of the Reserve Bank and the Finance ministry, with representation to the Planning Commission, the state governments and interests of industry, big and small, agriculture, trade, labour, deposit-holders and one or two academic economists. The council must meet at least twice a year, once three to four months prior to the central budget and a second time three to four months after the central budget; the council will chalk out in its December meeting, an *ex-ante* quantitative credit-target for the economy as a whole; in the July meeting it will resurvey the target in the light of the budgets and the process of growth of time liabilities, exchange reserves etc. Broad directions regarding allocations will be worked out. The credit council will also have indicative five-year sequence of targets.

Are there any special drawbacks of the

rule? Since the ceiling-rate is above the experienced average growth-rate of the economy, and a five-year adjustment period is given, contingencies are taken into account. Income-velocity changes are not very large to upset the effects of the rule. All studies indicate that the demand for money is not statistically higher than unit-elastic both with respect to absolute and per capita real income. The flexibility implicit in the rule provides for currency drains to and from rural areas.

One consequence of the rule is that interest-rates will be largely governed by market-forces and captive-markets for loans will disappear. The objection that the prevalance of interest-rates on saving deposits may imply an automatic result of a minimum growth in the bulk of demand liabilities at the same rate as interest on savings deposits can be overcome by making savings deposits less like money and/or by a stipulation that all interest will be automatically credited to fixed deposits amounts. Finally the operation of the rule will not be upset by the ebb and flow of remittances from abroad. The transformation of reserves into money can be easily regulated under Indian conditions.

Chinese pattern

We may note that China is supposed to have put into operation some such rule since, according to western economists who visited that country, the price level has been falling in that country. The structuralists' case for fundamental changes in the Indian economic system is not upset by the rule, which is strictly neutral in its impact on ideology. The rule protects the savers, the workers and the poor; it also protects the very young and the retired and the old. It provides a healing touch to the vast masses who have been adversely affected by inflation during the last two and a half decades. It strengthens the financial status of the scholars, the teachers, the servicemen, and the universities. The rule promotes self-help, hard-work, thrift, charity, whilst strengthening the weak, the small and the poor. Thus both the sources of growth and the ends of social justice are helped. Thus it is a most socially auspicious rule, because it buries inflation once and for all.

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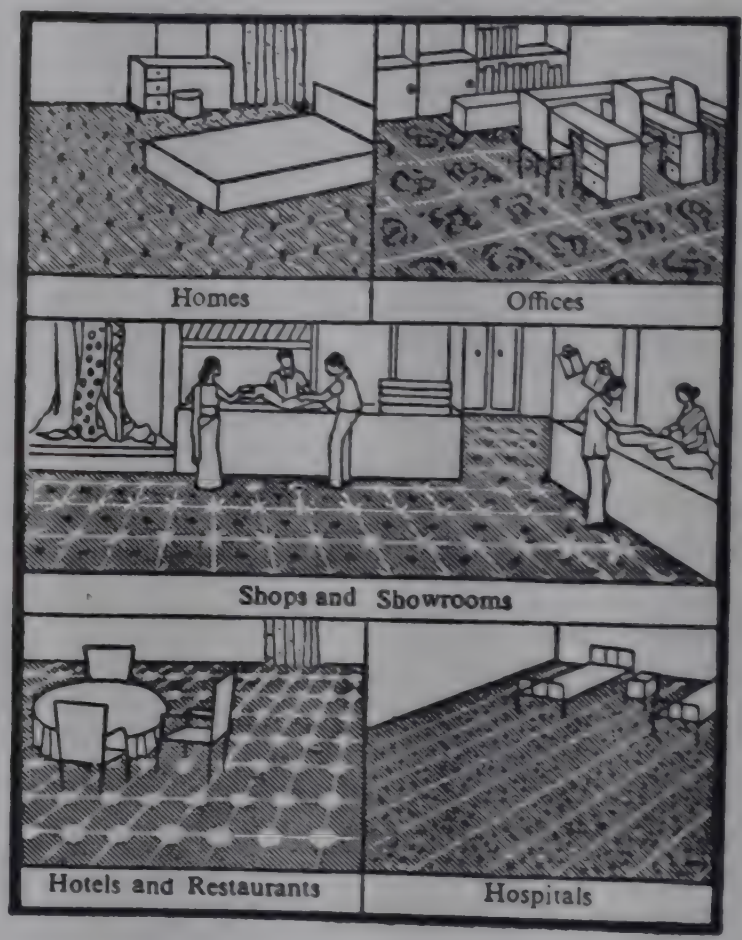

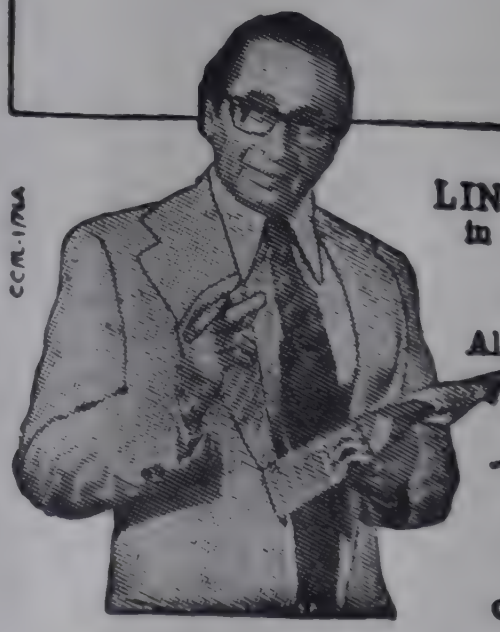

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Fund faces some problems and creates more

E. B. Brook

The International Monetary Fund can fulfil expectations only by mobilising more OPEC surpluses. It will maintain its credibility only by watching its steps while dealing with debtor countries.

THE MEN most responsible for international unds have been meeting in Washington o reach agreement on replenishing the offers of the International Monetary Fund. Like all other funds, the IMF eserves run short of cash at times. The atest depletion has been caused by the nassive and painfully negotiated loans o Britan and Italy and the depletion has een serious.

The Fund has to be made up quickly. argely because a whole line of other ountries in Asia, southern America, Africa and southern Europe is approach- ng the IMF's doors for replenishment of their funds. Many of them have reached point where they are not only unable o repay any of the IMF loans but have not enough money to pay the interests hey have contracted to pay on some of heir loans. Not unremarkably in these circumstances, these states are also unable to raise money on the commercial markets.

WINDOW ON THE WORLD

Compared with the detailed attention given to making the military defence of the non-communist world as safe as possible there has been as yet no adequate collec- tive action to protect its more exposed financial and economic areas. What has been described as "a system of collective monetary security" has still to be achieved; so that, from time to time, nation after nation in dire financial distress, comes to the International Monetary Fund for funds—or more funds—which it is difficult for the Fund to find or to discover sponsors for. The IMF's long-standing problem is how to raise funds to be able to meet these national requests, at least in part, without anxious emergency measures which always give financial world affairs the appearance of an eternal crisis. The ten major industrial countries of the IMF and the 20-member IMF interim committee have heard from the managing director, Dr Witteveen, the results of his negotiations for a special facility worth $16 billion, half to be raised from the OPEC group and half from industrialised creditor countries. If this plan fails the IMF may be driven to meet its most urgent require- ments by raising a multi-billion dollar loan from commercial banks.

The IMF's task in finding a solution to its financial problem would be easier if the OPEC states were more certain as lenders since several other offers of help are contingent on the oil-rich picking up the responsibility for covering a substantial part of the IMF's credit requirements. Within OPEC there is not a little diffe- rence of opinion as to how far OPEC should make itself responsible for others' financial necessities; none of the oil-rich forget that they were not rich themselves until their liquid gold became or was forced to be more valuable. They are also conscious of the fact that oil wealth does not last for ever; that before 1990, at the latest, their sources may have been exhausted as world suppliers—a fact of which the USSR is also belatedly becoming conscious regarding both its oil and its natural gas.

There is also a distinct difference between member states of the IMF about the purpose and working of the Fund. This was founded at Bretton Woods in 1945 immediately after the war to help preserve the now defunct system of fixed exchange rates. It is generally agreed that the Fund is needed to help countries meet payments crises without resorting to protection and other means damaging to their trade partners. But, so far, what the IMF has been obliged to concentrate upon is getting countries back into balance as quickly as possible.

the US view

The Americans has stressed the need to hasten reduction of the aggregate of the payments imbalance in the world generally. The IMF, they argue, alone can do this since commercial bank lack the inclination and the necessary power "to impose restrictive covenants on sovereign governments."

This absolute priority of reducing world debts does not appear logical to many debtor countries, including the British. These wish that the IMF give its greatest attention and help not to reducing the grand total of debt but to assisting economic growth and, by this means, to help in reducing world unemployment and building within individual nations a greater ability to begin paying off some of their own debts or, at least, to save them the necessity of sinking further into debt. Many IMF members-and especially those who owe money in massive sums—see the IMF's principal role in supporting constructive economic growth, reducing

worklessness and ensuring a more disciplined increase in trade liberalisation.

One hard-core deficit that is multinational and in no sense national is the $40 billion deficit between the rest of the world and the middle east oil producers. The deficit has become a serious obstacle to world economic recovery. The IMF aims to get better-off countries, such as the USA and West Germany, to lend it substantial sums of money so that it can aid the worst-hit nations. But Washington wants to link longer-term arrangements for containing the deficit with "a major expansion in the part to be played by the IMF in operating the international financial system in the years ahead". There is danger in this idea in that it could enable the small group of countries that, because of their wealth and lending-power, dominate the Fund to exert an excessive measure of control over the economic policies of the rest—industrially developed, developing and still under-developed.

The IMF's scheme to create a special fund of up to $16 billion provided by its better-off members to be held in credit to relieve the considerable pressure on debtor countries may lead to pressure on them to pursue restrictive policies at home. While the success of this IMF scheme would go some way towards mitigating the effect of the oil countries' huge surplus, arrangements of a much more enduring kind are needed to put additional foreign exchange at the disposal of the oil-consuming countries if the baleful influence of the oil-states' huge surplus is to be curtailed in any manner that looks like being permanent.

As ongoing collective oil deficit could become an instrument for pressuring debtor countries world-wide. They could be forced to shape their economic policies in accordance with the ideas and requirements of those in charge of the machinery for keeping them supplied with loans—a type of enlargement of the role of the IMF inspectors in Britain towards the end of last year.

It was not the debtor countries in east or west that torpedoed the Bretton Woods system of stable exchange rates, but the Americans by suspending the convertility of the dollar. The IMF now needs not only to get to grips with the problem of debts and of the huge oil-states' surplus but also with that of "hot money" and the competive devaluation caused by the onward march of floating rates.

Debtor countries especially and everywhere must beware that the useful aid that comes in times of great difficulty from the IMF does not turn into a power to interfere with member countries' economic affairs. There are today many threats to national sovereignties; the IMF's approach to would-be borrowers that they should conform to the ideas of IMF lenders could be a dangerous interference—already seen in its dealings with Italy and Britain—with a nation's will that could lead to resentment and even to conflict.

Jap watches and cameras: mass production plus quality

The wide diversification of Japan's industrial production and exports is one of the major factors accounting for the strength and resilience of the Japanese economy, especially in international trade. Here, the Mitsubishi Corporation, in the April issue of its 'Tokyo Newsletter' describes the dynamics of two of Japan's many growth industries—Watches and Cameras.

JAPAN EXPORTED during 1976, 21,280,000 watches and 6,290,000 cameras. These figures represent roughly 10 per cent and 20 per cent respectively of the total world demand for watches and cameras. The percentages would rise if only high-grade products were considered. It is evidence of how highly the world rates Japan's timepiece and camera industries.

Japan's timepiece industry suffered a crushing blow in World War II but began to revive rapidly from about 1950 when domestic demand started to grow. Watch production, in particular, recorded an exceptional average annual growth of 28 per cent in the five years from 1956 through 1961.

Various reasons are given for this rapid expansion of domestic demand. Firstly, an enormous latent demand was built up during the roughly ten blank years after the war. Secondly, the improvement of income levels caused demand to spread to agricultural worker and the younger generation. Thirdly, the thinking that watches are valuables and luxuries changed to the thinking that they are durable consumer goods, fashionable articles, and accessories.

On the manufacturing side, Orient Watch Co Ltd and Ricoh Watch Co Ltd were established to join the field in addition to K. Hattori & Co Ltd (SEIKO) and Citizen Watch Co Ltd which had been in business since before World War II. By around 1955, the assembly line mass production system had been established. As a result, quality, performance and precision improved and the cost was brought down. In addition, new products were developed to stimulate wider demand.

Around 1961-62, domestic demand

TABLE I

Production of Watches in Japan

Year	Output (in 10,000 pieces)	Value (in million dollars)
1971	2437	300
1972	2546	338
1973	2805	439
1974	3237	555
1975	3023	577

ich had been climbing rapidly began to w down in proportion to the rise in the fusion rate. Around this time, how-r, almost all Japanese brands had ached the international level in both ality and performance. Some watches re even superior to high-quality foreign ands. Furthermore, cost-cutting through tionalisation had made Japanese watches ternationally competitive price-wise. xports mounted swiftly after 1965, and 1973 Japan became the world's second nking watch maker in terms of produc-on and exports, after Switzerland.

As for clocks, the growth of domestic emand reached a high level from around 967. Clock exports, too, became brisk, nd production rose rapidly. Today, apan has surpassed West Germany, which sed to be known as the world's foremost lock-making country, and produces more locks than any other country.

The full-scale production of cameras in apan began after World War II. Up to nen, the camera industry depended to a arge degree on the military demand. It roduced only a limited volume for civilian onsumption, and then mainly for export.

In the days immediately after the war, he camera industry had strong overtones of a cottage industry. The abundance of manpower in those days made the work of assembling cameras relatively easy. Thus, a large number of newcomers entered the industry, particularly at the time of the Korean war. In the peak year of 1953, there were more than 80 camera manufac-turers in Japan. But in the following year, twenty makers went bankrupt, and in 1955 ten more closed down. Today, there are about 40 still in business.

From around 1960, camera manufac-turers began to adopt mass production methods, a process which helped to con-solidate the foothold of the big makers. Backed by this mass production set-up, the makers began to push exports from around 1965. As a result, the export ratio which in 1955 was down to 30 per cent picked up strongly and exceeded the 50 per cent level around 1965. It was around this time that Japanese camera exports exceed-ed West German camera exports.

As for the production set-up, the Japanese timepiece industry differs from that of Switzerland in that it has adopted the integrated mass production method. This is one of the factors behind the surg-ing growth of the Japanese industry in the era of electronic timepieces. The fact that the production scale per company is large means that timepiece production in Japan is concentrated in a handful of companies. If the electronics makers which recently entered the timepiece industry are excluded, the number of Japanese timepiece manu-facturers total only four.

In Switzerland, the method followed is that of brand makers assembling parts which they purchase from parts makers who concentrate in producing only parts. It can be said that this set-up hindered Swiss makers from effectively switching to meet the demands of the new era, that of the electronic timepiece.

A similar situation prevails in the pro-duction picture of clocks. Although known as the king of clockmakers, even the biggest West German maker produces only several hundred thousand clocks per month. In Japan, makers sometimes turn out a million pieces in a month. Japanese manufacturers are even now rapidly expanding their production facilities further.

Although not as extreme as in the time-piece industry, the concentration of pro-duction prevails also in the camera industry, with the five major companies accounting for more than 50 per cent of the total Japanese production.

quality products

The Japanese makers are concentrating on high-quality products. This trend is particularly strong in the camera industry. West Germany is concentrating on the production of the lens shutter camera whereas Japan is concentrating on the focal plane shutter camera which is said to rank one rung higher in quality. Of Japan's total production, 60 per cent consists of focal plane shutter cameras. It was this difference in the type of pro-duct which enabled Japan to gain the position of the world's top camera country.

There is, however, another aspect to this story of timepieces and cameras. The belief that cameras and watches are expen-sive valuables is fading away and demand for them is spreading among the low-age group. There have emerged on the market watches and cameras which are aimed specifically at the low-age group. These items stress fashionableness and casual-ness. The pin lever ordinary watches made in Hong Kong and South Korea are particularly popular in Japan and their imports are rising steeply. These articles are regarded by the young as a second and third watch whose use they determine according to time, place and occasion.

At the same time, the popularity of Swiss watches, whose image as high-quality imported goods remains firm and steady, is deeply rooted among the Japanese. Thus, the import of Swiss watches and of British and American cameras have approximately doubled in quantity in the past five years.

The development of new products is being vigorously pursued in Japan. A digital watch which uses a 35mm film for

TABLE II

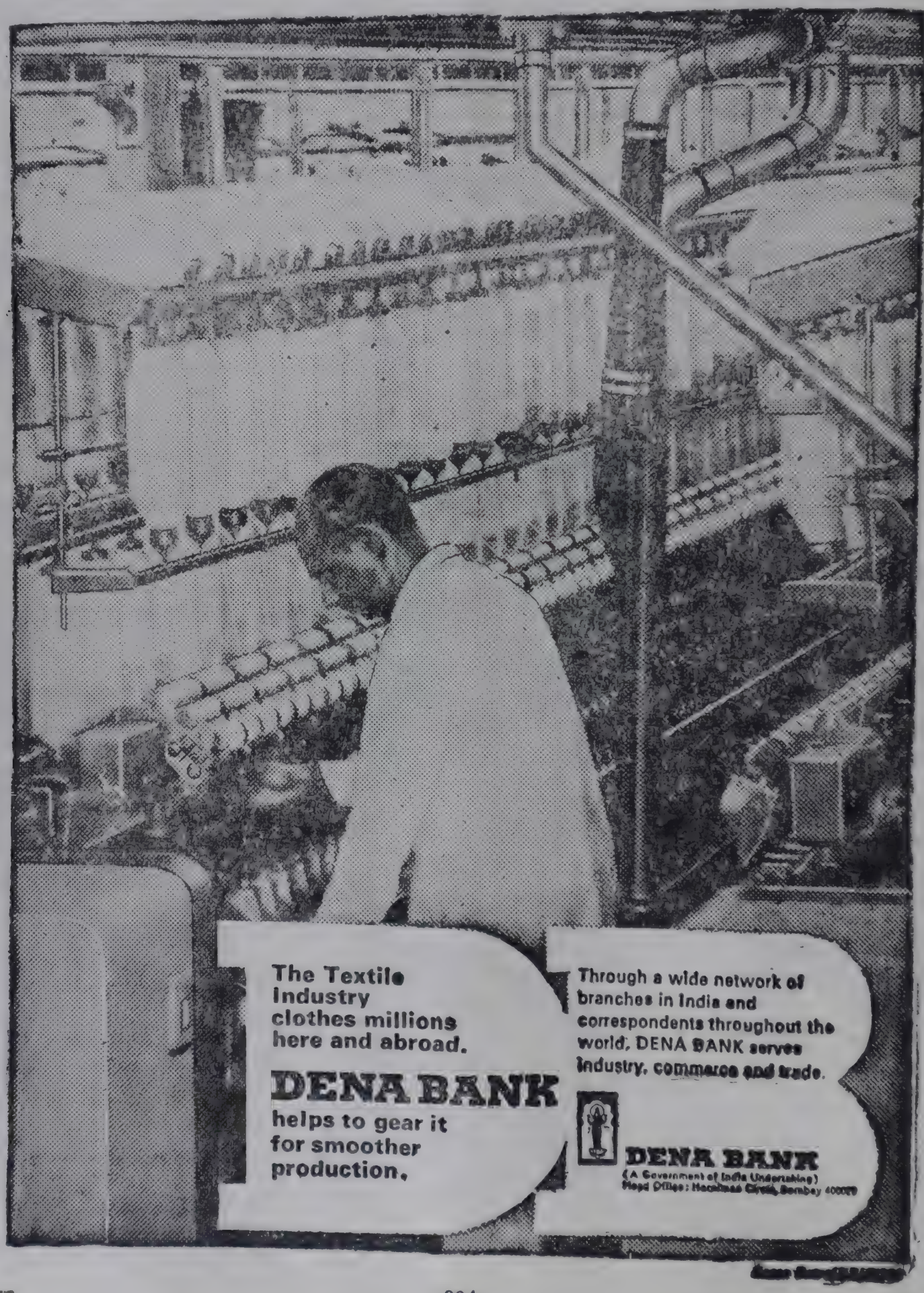
World Demand for Still Cameras and Japanese Output

Year	Japanese output (in 10,000 units)	World demand (in 10,000 units)	Percentage (2) to (3)	Japanese output in value (million dollars)	World demand in value (million dollars)	Percentage (5) to (6)
1	2	3	4	5	6	7
1974	736	2839	26	521	892	58
1975	736	2775	27	538	911	59
1976	796	2977	27	605	1029	59
1977 (Estimate)	825	3036	27	662	1097	60

the plate has made its appearance. Until now, ceramic was used, but the use of 35mm film reduces greatly the manufacturing process.

The development of new products is also active in the camera industry. The production of cameras with automatic exposure mechanism has been going on full-scale since around 1972. Recent electronic innovations have spurred the trend towards interlocking and systematization of mechanisms. This is the trend towards modulation of parts in order to achieve greater rationalisation of production.

The timepiece and camera industries in Japan are pushing forward with the rationalisation of their production systems within the framework of an ever-expanding mass production set-up. These endeavour have greatly helped the progress of Japan timepiece and camera industries. Wit respect to some types of cameras an watches, the exports of Hong Kon Taiwan and South Korean products a expanding rapidly. However, Japan international competitiveness will remai strong for some time to come.



MOVING FINGER

I do not know why any-body should shed tears over Mr Siddartha Shankar Ray losing to Mr Brahmananda Reddy in the contest for the presidentship of the Congress party. Mr Ray was undoubtedly one of the sinister phantoms of the emergency. Enough has been hinted by his own partymen to justify the suspicion that he was among the evil counsellors who took it upon themselves to master-mind the Indira regime's saderene rush. In contrast, Mr Brahmananda Reddy was merely one of the more ridiculous clowns of the emergency circus; he was always being caught with his pants down. That congressmen should have chosen such a character to lead them out of the crisis is an indication perhaps that they have ceased to take either themselves or their party seriously. In any case, the fact that Mr Raghuramiah was one of the vociferous opponents of Mr Reddy was easily a point in favour of the latter. In serving three generations of the Nehrus, which is what he has been boasting of, Mr Raghuramiah has deteriorated only less fast than those generations have done. For long trying to find his level, he succeeded at last when he began grovelling at the feet of Mr Sanjay Gandhi.

What may cause us concern, however, is that Mr Reddy should have been elected as a candidate of Mrs Gandhi. The lady, quite clearly, has not even stooped to conquer. Equally clearly there are large numbers of people in the party who, even after what has happened, are prepared to throw in their lot with her and gamble on her return to power at some not-too-far-distant date. Surely this should make the Janata leaders sit up and take notice. So far they have been so busy planning to demolish the Congress governments in nine states that they seem to have given no thought at all to destroy Mrs Gandhi's power base in the country. On the contrary, the super-leaders among them seem to be going out of their way to make things easy for her. When Mrs Vijayalakshmi Pandit fondly explained that Mrs Gandhi was after all her niece and Mr Sanjay Gandhi, consequently, his grand-nephew, she was only stating flesh-and-blood facts, however unpalatable. But, what are we to make of Mr Jayaprakash Narayan confiding to some caller that he too regards Mrs Gandhi as *his* niece? This relationship, surely, is pure fiction. "Uncle me no uncle" said "Old John of Ghaunt, time-honour'd Lancaster". I strongly feel that Mr Jayaprakash Narayan has far less reason to concede kinship. This is not a laughing matter. Time is on the side of Mrs Gandhi and her associates and accomplices in crime. At the rate the central government is moving or not moving against them, the last laugh will undoubtedly be theirs.

Amidst all that fuss this much is clear. Mr Jatti met Mr Beg after the supreme court had announced its order on the "assemblies dissolution" case and the acting president himself had signed the proclamation dissolving the state assemblies. There was therefore no question of the acting president attempting to influence the chief justice or through him his fellow-judges so far as the substantive verdict on the case went. It cannot therefore be said in fairness that Mr Jatti was abusing his official position and trying to interfere with the course of justice. Was the acting president guilty of other, even if lesser, improprieties in meeting the chief justice during the time the judges were considering detailed judgment after already having announced the order? Mr Justice P.K. Goswami, as solemn as an owl, has gone on record that the chief justice was good enough to tell him and the other judges who had heard the case that, when the acting president saw the chief justice, "there was mention of this pending matter during the conversation". A statement issued by an official of the Supreme Court on behalf of the chief justice allows by implication that "there was mention of this pending matter during the conversation".

What precisely was the nature and content of this "mention"? According to the statement issued on behalf of the chief justice, "Mr Jatti had only expressed a desire that the reasons of the court's judgment be made known before May 7". Apart from this, Mr Jatti, according to Mr Beg, did not "utter a single word" about the constitutional crisis. Now if Mr Beg had accurately described what had passed between him and Mr Jatti in this respect, it follows that Mr Justice Goswami is a person who shudders too easily. It would surely be hypercritical to read sinister intent into Mr Jatti's request that the judgment might be delivered before May 7, especially as, at the time of making the order, the chief justice had indicated that the bench would state the grounds for its decision on May 6.

Mr Jatti, perhaps, was only trying to ensure that there was no delay. Whether this matter was important enough for him to have placed himself and the chief justice in a position which, if misunderstood, could cause embarrassment to both is open to debate. Mr Jatti evidently thought that it was. For taking this view and acting on it, he has paid the price by provoking a controversy over his way of conducting himself, when it is supremely important for him that he should avoid controversies of a personal nature. As for the chief justice, having thought it necessary to tell his colleagues that "there was mention of this pending matter during the conversation", he should surely have explained that all that the acting president said was that the reasons for the court's judgment should be made known before May 7. In which case, Mr Justice Goswami would have been spared that unnecessary chill in the spine.

VB

TRADE WINDS

Incremental Reserve Ratio of Banks

THE RESERVE Bank of India has extended 'until further notice' the incremental reserve ratio of the scheduled commercial banks, reemphasising the need for the continuance of the credit curbs on the banks. The incremental reserve ratio—impounding of 10 per cent of demand and time liabilities of scheduled commercial banks—was imposed effective from January 14 and was intended to have a time span up to April 1. However, the Reserve Bank extended the curb up to April 29, 'in view of the continuing need for regulating the lendable resources of the scheduled commercial banks and maintaining restraint on the expansion of bank credit.' This current extension 'until further notice' is decided after 'taking into consideration the current comfortable liquidity conditions in the money market and in view of the continued need for regulating the lendable resources of the banks consistent with the policy objectives of restraining inflationary pressures.

IFCI Bonds

The Industrial Finance Corporation of India has decided to augment its resources by a fresh issue of bonds for Rs 18 crore at six per cent (1987), according to an official release. The bonds are fully guaranteed by the union government as to repayment of principal and payment of interest, and are approved securities under the Indian Trusts Act, the Insurance Act and the Banking Regulation Act.

The bonds will have a maturity of ten years and will carry interest at six per cent a year, The issue price will be Rs 99 for every Rs 100 of the bonds applied for.

Sugar Output

According to the Indian Sugar Mills Association, the sugar production in the month of March, 1977 the sixth month of the season 1976-77 was about 796,000 tonnes as against 784,000 tonnes during the corresponding period of last season. This brings the total production during the first six months of the season 1976-77 to about 4,180,000 tonnes as against 3,714,000 tonnes during the corresponding period last year. The off-take of sugar from factories during the month of March, 1977 was about 278,000 tonnes for internal consumption and 89,000 tonnes for exports as against about 314,000 tonnes for internal consumption and 186,000 tonnes for exports in the corresponding period last season. The total despatches in the first six months in 1976-77 was 1,835,000 tonnes for internal consumption and 276,000 tonnes for export as against 1,855,000 tonnes for internal consumption and 708,000 tonnes for exports during the corresponding period last season. The total closing stock of sugar with the factories as on March 31, 1977 was about 2,906,000 tonnes as against 2,357,000 tonnes on the same date last season.

Bokaro Steel Progress

Bokaro Steel has earned the distinction of being the unit to export for the first time HR plates and coils to Indonesia and Kenya. First export order to the USA for the HR coils was completed in April 1977. Total despatches against this order to the USA was 17,114 tonnes. Bokaro Steel Plant achieved all time high records in the production of gross coke, ammonium sulphate, pig iron and hot rolled coils, sheets and plates during the month of April 1977. 164,537 tonnes of gross coke, 2,228 tonnes of ammonium sulphate, 150,896 tonnes of pig iron, and 67,134 tonnes of hot rolled coils were produced in the month. In addition 186,839 tonnes of sinter, 186,839 tonnes of hot metal, 89.083 tonnes of ingot steel and 77,754 tonnes of slabs were also produced. A total of 72,809 tonnes of saleable steel was produced in April, 1977. Despatches during the month have been very high. 61,281.4 tonnes of pig iron, 33,892.8 tonnes for home sales, 27,388.6 tonnes for export, 9,675 tonnes of slabs, 29,651.3 tonnes of hot rolled coils, 30,406.3 tonnes of hot rolled plates and sheets were despatched. Total saleable steel despatched was 69,733.2 tonnes—61,798.2 tonnes for home and 7,935 tonnes for export.

Triveni Structurals

For the first time since its inception in 1965, Triveni Structurals Limited has registered a net profit of Rs 26 lakhs during the financial year 1975-76. The total production by this public sector enterprise under the department of heavy industry was valued at Rs 6.75 crores during that year. The production performance of the unit was so good that it exceeded the targeted production by 205 tonnes. Triveni Structurals Limited was set up in Jnue 1965 in collaboration with M/s Voest of Austria for the manufacture of steel building structurals, hydraulic gates, penstocks, storage tanks, pressure vessels, steel bridges, LD converters, heavy duty cranes, and hoists, etc. The plant has an installed capacity for the manufacture of 20,000 tonnes of equipment per year. The company has since diversified both its technology and product base. It has developed a capacity for several new products like radar towers for the Air Force, rigs for the ONGC, guy-masts for television and several other items.

Major Projects

During 1975-76, the company completed many major projects including supply and erection of cylindrical gates to the Ramganga project, radial gates for export to Zambia and for installation in the Beas and Haldia projects. High-head gates and radial gates are also being supplied to various other projects in the country. New stainless steel welding techniques were developed by the company and it has successfully completed the supply of stainless steel vessels to the Bhabha Atomic Research Centre and to the Fertiliser Corporation of India. It is now in a position to offer specialised consultancy services in the field of design and erection of high towers and hydraulic structures of all types.

According to projections prepared by the company, its production is likely to be of the value of Rs 8.52 crores in 1976-77. Several high-value

ms were taken up for manu-cture during this year. These cluded pressure vessels and at exchangers, aerial rope-ays for hill areas, and effluent eatment systems for metropo-an cities. The company is so exploring the possibilities producing turn-key plants r processing industries, EOT anes, industrial machines and quipment, besides the further evelopment of welding techno-gy.

More Funds for Rural Electrification

The Rural Electrification Corporation has sanctioned nother Rs 12.7 crores for lectrification projects in 4 states. The corporation pproved 32 new schemes overing 1,737 villages. Under hese projects it is proposed to nergise about 11,200 irriga-ion pumpsets and 1,250 small-cale agro-based industries in the rural areas. The new pro-ects also provide for over 29,500 domestic and commer-cial connections and more than 10,000 street lights in the rural areas. Of the new projects as many as 14 are meant for the socio-economic development of backward areas. The loan assistance for those projects exceeds Rs 5.85 crores.

Loan Sanctions

The corporation has sanc-tioned a rural electric coopera-tive project for Jammu & Kashmir costing over Rs 2 crores. This will be the first such project in the state. A loan assistance of over Rs 1.81 crore will be provided to the cooperative which will cover about 280 villages in the Samba tehsil of Jammu district. Ano-ther noteworthy feature of the new sanctions is the approval of four training centres for linemen, one each in Bihar and Haryana and two for Punjab. The training centres will be located at Ranchi, Kar-nal, Ludhiana and Amritsar. A special loan assistance of about Rs 24 lakhs will be pro-vided for these training centres. The corporation has sanctioned a loan of over Rs 90 lakhs to the Maharashtra State Electri-city Board to meet the increas-ed expenditure on 12 electrifi-cation schemes on account of cost escalation. The Maha-rashtra. Board has also been sanctioned about Rs 6 lakhs for the extension of electricity to 131 harijan bastis in the rural areas.

Indo-German Collaborations

Four hundred and thirteen Indo-German collaborations are.working in India at present. This is the result of the latest survey undertaken by the Indo-German Chamber of Com-merce: 37.2 per cent of these collaborations are located in Bombay/Poona, 15.5 per cent in New Delhi/Ghaziabad, 11 per cent in Calcutta; 18 per cent account for industrial machinery (general); 13.8 per cent for the chemical and phar-maceutical industry and 13.8 per cent for electrical machinery.

Since 1957 as many as 840 Indo-German collaborations have been sanctioned by the Indian government. 623 collaborations out of the 840 went into production, and 413 are still in existence. The balance either did not materia-lise or expired in the meantime.

All Indo-German collabo-rations which had ever gone into production, that is 623, are listed in the new edition of the publication of the Indo-German Chamber of Com-merce: "Indo-German Colla-boration".

This fourth edition of the compendium presents the factual position in respect of Indo-German collaborations as at the end of 1976. A total of 623 collaborations have been listed in this volume, classi-fied into 11 broad industry groups. Whether they are technical and/or financial, and whether they are still in opera-tion or have expired, is also indicated, along with the pro-ducts manufactured under each collaboration. The year in which production commenced or is scheduled to commence, and where that is not known the year in which the collabo-ration was sanctioned by government of India, is also mentioned in almost all the cases. An alphabetical index of the Indian firms and another index of the German firms involved in these collaborations is given at the end.

An introduction gives interesting up-to-date figures on Indo-German collabora-tions.

Priced at Rs 30 it is available both in English and German (for members one copy free on request).

Economic Growth and Inflation

For the period 1977 to 1984, the following economic growth rates have been predicted by 'Chase Econometrics', USA (in brackets the rates actually achieved during 1964 to 1976): Japan 58 per cent (71 per cent); Italy 43 per cent (26 per cent); France 43 per cent (44 per cent); Federal Republic of Germany 40 per cent (32 per cent); Netherlands 39 per cent (38 per cent); USA 37 per cent (21 per cent); Belgium 33 per cent (41 per cent); England 20 per cent (17 per cent).

Regarding inflation, the following rates in increase are predicted for 1977 to 1984 (again in brackets the increase rates during 1964 to 1976) : England 150 per cent (139 per cent); Italy 133 per cent (114 per cent); France 110 per cent (86 per cent); Belgium 98 per cent (75 per cent); Japan 94 per cent (112 per cent); Netherlands 88 per cent (83 per cent); Federal Republic of Germany 51 per cent (49 per cent); USA 50 per cent (63 per cent).

Real Wages of Industrial Labour

The real wages of industrial labour show a gradual, though uneven rise over the first two decades of the period of the Plans (1951-70). The rise was marginally greater than the increase in per capita real income. The reward of organis-ed labour thus more than kept pace with the improvement—slow as it was—in average national income. This is the conclusion of a study by Dr B.K. Madan, a noted econo-mist and chairman, Manage-ment Development Institute (MDI), New Delhi. The mono-graph published by MDI explodes the myth of the static or declining real wages of organised labour under plan-ning. A conclusion which the study underlines concerns the importance of a non-inflationary environment for significant improvement in the real earn-ings of workers.

The earlier enquiries into the problem by the National Com-mission on Labour (1969) and a few individual scholars had been warped by a queer quirk that had crept into the analysis of trends in the real earnings of labour over the entire planning era through the use of a series of statistics which are found on examination to suffer from critical shortcomings for the purpose. The statistics are those collected under the Pay-

ment of Wages Act, 1936. Called into question in the study of Dr Madan is the unquestioned use of these statistics over such a long period for presentation of trends which are seen, in the result, to have been grossly distorted in the process.

The study by Dr Madan attempts on the basis of alternative and more Comprehensive data derived from the annual survey of industries and its predecessor, the census of Indian manufacturing relating to the earnings of all workers, to throw light on the trends of real wages of organised industrial labour during the two decades from 1951 to 1970. This has furnished the basis for the revision of the long-held belief that organised industrial labour missed sharing the benefits of planned economic development.

Of particular significance for the economic prospect is the prognostication from past statistical trends disclosed in the study, that the average performance of the economy during the next couple of years or so, is likely to reflect a fairly strong uptrend, in real per capita income, productivity and real earnings of labour, which may have started from 1976. This conclusion is based on interpretation and projection of behaviour of certain series of data over the 20-year period under study and has no reference to the currents of short-term policy shifts.

German Private Investment in India

During 1976 German private investment in India increased by Rs 1.89 mlllion. Since 1957 altogether Rs676.14 million have been invested by the German private industry in in India, re-investment is not inculded. The major part of the investments have been in the branches of machine building industry, chemical and pharmaceutical industry and automobile industry.

Amongst the Asian developing countries, India ranks first regarding German private investment, and amongst the total Asian countries fourth behind Israel, Iran and Japan.

Fifteen Years of ESRF

The Economic and Scientific Research Foundation (ESRF) has completed 15 years of research work. The ESRF in the past 15 years has brought out 44 studies. These cover a wide range of subjects including technological research, taxation, productivity, exports, industrial finance, economic disparities, trade, entrepreneurship, etc. The ESRF has on its agenda subjects on rural development for study in the near future. At the conclusion of the annual general meeting of the ESRF held on April 22, 1977, Mr M.V. Arunachalam took over as president from Dr Bharat Ram.

Textile Exports to Russia

A USSR delegation for textiles has struck a deal with the cotton mills in this country for the purchase of cotton fabrics worth seven crores rupees after setting the price. The Soviet delegation would agree to increase the price by between two and five per cent in case of various categories of cloth—over the January contract rate although the mills pressed hard for a rise of 10 to 20 per cent in view of steep escalation of costs. The quantity involved is 15 million metres which with the earlier purchases completes the quota fixed for textiles in bilateral trade agreement. The shipment period is spread between May and September. The USSR could now be expected to re-enter the Indian market after September.

Banking Commission Wound Up

The Banking Commission appointed by the government on July 28 last year under the Charimanship of Mr Manubhai Shah has been wound up. The commission was set up to go into the question of restructuring the public sector commercial banking system. It was to submit its report by July 31 this year. Mr Shah resigned the chairmanship of Commission on February 10, 1977.

The government had an opportunity to examine whether the commission could be continued with its present terms of reference. On a consideration of all aspects, government have decided that it would be better to wind up the Commission. As regards the evidence and other material collected by the commission so far, they will be processed in consultation with the Reserve Bank of India wherever necessary. Mr. N.K. Venkatachalam, member secretary of the commission will be appointed to the Banking Wing of the department of Revenue and Banking as an officer on special duty to proces the material.

Vanaspati Prices

The vanaspati industry has decided to eliminate all middlemen who do blackmarketing and ensure that vanaspati is sold to the consumer at a fair price. The manufacturers have also assured the government that they would maintain price stability through a strict watch over their distribution outlets and opening their own retail stores if necessary.

The industry's assuran came in response to a call the minister of Commerce ar Civil Supplies, Mr Moha Dharia to control vanaspa prices which had risen steep in spite of the easy availabili of raw materials and at stab prices. Mr Dharia had als expressed concern over the wic disparity between the price th consumer had to pay and th price at which the industry so vanaspati to traders.

The step proposed by th representatives of the Vanaspa Manufacturers' Association i the meeting with the ministe it is hoped, would discoura price manipulation at th dealers level and the diff rence between the deale and manufacturers pric would thus be wiped ou To keep the government wel informed about the supp position of vanaspati manufa turers have promised to subm the list of their dealers and th quantities supplied to the from time to time. To mai tain price stability over long periods the industry has decide to review the prices every wee Steps to display prices at a levels would also be taken.

HSL Exports

The Hindustan Steel Lim ted has bagged an order t supply 50,000 tonnes of ho rolled coils to the United State This is the heaviest item to b manufactured in any steel plan in India and first of its kind t be introduced in the interna tional market by India. Ho coils each weighing about 1 tonnes are being manufacture at Bokaro steel plant and th first shipment of 16,000 tonne is expected to sail from her soon. Present order is to b shipped to the US within thre months. Regular flow of orde from some more foreign cou tries besides the United State

re also expected. Each tonne f this item will cost around s 1,600 in the US.

rinting Prize for ata Press

Tata Press Limited, one of the ading printing presses in India quipped with the most modern achinery for composing and rinting, has won 15 prices for xcellence in printing in various ategories at the All-India rinters' Conference held at handigarh. The tally of Tata ress is the highest among the rize winners. It secured the argest number of first prizes—our in all—for multicolour alendars—Tata Services Limied calendar; Children's Books English)—"Nala and Damaanti"; Books (english)—"A Family in Goa"; and Magaines (weekly, fortnightly and nonthly)—"Marg." It bagged seven second prizes in the ollowing categories: Letterpress—technical and commercial bulletins (multicolour); diaries; folders; catalogues, pamphlets and booklets; Offset —book jackets and book titles; annual reports (english—single colour); and catalogues, pamphlets and booklets. The four hird prizes secured by it were n the categories of letterpress —annual reports (english—multicolour); greeting cards and menu cards; offset books (english); and technical and commercial bulletins.

Air Cargo Club of Delhi

Air Cargo Club of Delhi was formed recently to promote friendshjp and goodwill throughout the membership of the air freight industry, both nationally and internationally. It will also further the interest of all those engaged in the air freight industry by providing instructions to its members in matters relating to the industry; by lectures, film shows, debates, seminars or by any other appropriate means. It will foster closer relations among all air freight transport professionals. It will protect and defend the professional interest of its members and of air transport. Mr B.L. Parashra, Cargo Sales-Manager—India Air-India, was elected the first president.

Names in the News

Mr M. Narasimhan has been appointed Reserve Bank governor. He has replaced Mr K.R. Puri who has been allowed to retire from the post at his request. Mr Narasimhan has been the secretary in the Banking department of ministry of Finance from November 1976. He was also secretary to the RBI for more than a decade and a half. Mr Narasimhan was also chief of the South Asia division in the International Monetary Fund between 1960 and 1963.

Mr J.R. Birla, president of the cement division of Birla Jute Mfg Co Ltd, has joined the board as a whole-time director of the company.

Mr A. K. Rungta, has been elected president of Bharat Chamber of Commerce, Calcutta. He is chairman of Hind Wire Industries Ltd, managing director of West Bengal Scooters Ltd and director of several other public limited companies.

Mr R.K. Swamy, chairman and managing director of R.K. Swamy Advertising Associates Pvt Ltd, has been unanimously elected president of the All India Management Association for the year 1977-78.

Mr J.C. Israni, managing director, Golden Dyes, has been elected president of Dyestuffs Manufacturers' Association of India for the year 1977-78.

Department of Atomic Energy

On behalf of the President of India, the Director, Directorate of Purchase and Stores, Department of Atomic Energy, Bombay invites tenders as detailed below.

1. DPS/PPED/ELE/434 due on 25.5.1977. Design, manufacture, testing, inspection, delivery, guarantee of Twisted PVC insulated solid copper-constemtan thermocouple extension cable as per ANSI-C 96.1 and as per Purchaser's specifications.

2. DPS/RRC/ELE/121 due on 1.6.1977. Design, construction, testing and delivery at site of flexible composite cable to be used for transmitting Power and control signal to a mobile carriage as per Purchaser's specifications.

3. DPS/NAPP/PPED/PPF/50 due on 7.6.1977. Supply of stainless steel fittings as per purchaser's tender specifications.

4. DPS/RRC/PPF/171 due on 14.6.1977. Supply of fabricated nitrogen valves as per purchaser's tender specifications.

5. DPS/PREFRE/PPF/61 due on 13.6.1977. Supply of seamless stainless steel cold drawn annealed and pickled finish plain at both ends pipes as per purchaser's specifications.

6. DPS/BARC/MIA/10561 due on 14.6.1977. 25-30 KW (3 K C/S), motor generator or solid state static converter type induction melting furnace to work on 400/440 V, 3 phase 50 C/S. Crucible 180 mm ID x 300 mm height at temp. above 1400°C for melting copper alloys, etc. Qty. 1 No.

7. DPS/MAPP/ELE/73 due on 27.5.1977. Design, manufacture, testing and delivery to site, of 11000 Volt grade, 50 Hz. Paper Insulated Lead Covered (PILC) power cables as per Purchaser's specifications.

8. DPS/TAPS/FAB/15 due on 10.6.1977. Manufacture and supply of C.W. Pump Diffuser as per Purchaser's specification and drawing. Qty. 1 No.

DPS/HWP/EEQ/235 due on 14.6.1977. Design, manufacture, supply and installation, testing and commissioning of 11 KV, 1000 KVAR Indoor type Power Factor Improvement capacitors and associated protective system..1 No. as per specifications.

10. DPS/NFC/FAB/62 due on 15.6.1977. Rough machining, and final grinding of Extrusion Press as per purchaser's specification. Qty. 2 Nos.

11. DPS/NAPP/PPED/FAB/26 due on 31.5.1977. Manufacture and supply at Narora Atomic Power Project Site, Narora of Sliding Bearing Pads as per Purchaser's specification and drawing.

12. DPS/BARC (R-5)/ELE/53 due on 7.6.1977. Design, manufacture, testing, inspection, supply and delivery at site of 3 core 240 Sq. mm 3.3 KV grade H.R. PVC insulated galvanised round wire armoured and overall PVC sheathed aluminium conductor cables as per Purchaser's specifications.

13. DPS/PPED/EEQ/247 due on 13.6.1977. Design, manufacture, testing, supply of DC Motor Control Panels for Control of DC Flushing Oil Pump, DC lube oil pump and seal oil pump..2 Nos., 2 Nos. & 4 Nos. respectively as per specification.

14. DPS/BARC/FAB/131 due on 13.6.1977. Design, preparation of shop drawings, fabrication, testing and painting & erection at centralised waste management facility at Kalpakkam of M.S. Bulk Oil Storage Tank, as per Purchaser's tender documents, Qty. 3 Nos.

15. DPS/NAPP/PPED/FAB/27 due on 14 6.1977. Manufacture, inspection, testing, packing and supply of Clamping Barrel, Screw Gear and Racks as per Purchaser's specification and drawings. Qty. 6 sets.

Tender documents priced Rs 25 each for items at S. Nos. 1 to 5; Rs 30 for item at S. No. 6; Rs 50 each for items at S. Nos. 7 to 10 and Rs 100 each for items at S. Nos. 11 to 15 and general conditions of contracts priced 50 paise (except for items at S. Nos. 8, 10, 11, 14 & 15) can be had from the Finance and Accounts Officer, Depa tment of Atomic Energy, Directorate of Purchase and Stores, 3rd floor, Mohatta Building, Palton Road, Bombay-400001 between 10 a.m. and 1 p.m. on all working days except on Saturdays. Import Licence will be provided for items at S. Nos. 3, 4 & 5 only if the items are not available indigenously. Tenders will be received upto 3 p.m. on due date shown above and will be opened at 4 p.m. on the same day. The right is reserved to accept or reject lowest or any tenders in part or full without assigning any reasons.

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COMPANY AFFAIRS

Indian Bank

THE INDIAN Bank continued to maintain its forward thrust for the sixth year in succession under all major heads, resources mobilisation, sectoral credit deployment, geographical coverage, income, profits and transfer to reserves. Deposits and other accounts in India and abroad rose from Rs 358.23 crores at end 1975 to Rs 473.69 crores at end 1976, and advances from Rs 243.81 crores to Rs 344.66 crores. Aggregate deposits in India excluding deposits from banks rose from Rs 349.36 crores to Rs 455.74 crores, or 30.45 per cent. Average deposits per branch rose from Rs 60.44 lakhs to Rs 69.05 lakhs. Bank credit in India excluding due from banks rose from Rs 235.69 crores to Rs 334.75 crores, or 42.13 per cent and average bank credit per branch from Rs 40.78 lakhs to Rs 50.71 lakhs. Of the Rs 99.06 crores bank credit increase during 1976, Rs 36.50 crores went for public food procurement credit and Rs 20.55 crores for advances to the priorty sectors excluding the export sector and Rs 19.65 crores to the core sectors and mass consumption goods industries.

Branch Expansion

Branch network in the western, central, eastern and north-eastern parts of India was strengthened to 194, against 139 at 1975 end, and total branches in India rose to 660. The bank's total income rose to Rs 44.12 crores, and the net profit after tax to Rs 2.29 crores (Rs 1.24 crores for 1975). A sum of Rs 1.68 crores has been transferred to the reserve fund. Complette provision has been made for the actuarially assessed staff gratuity liabilities accrued up to 1976 end.

The bank's paid up capital which stood at Rs 89 lakhs at the time of nationalisation was raised to Rs 2 crores in 1972 by transferring Rs 1.11 crores from the reserve fund. In 1976, the board further increased the paid up capital to Rs 3 crores by transferring one crore rupees from the reserve fund. With the transfer of Rs 1.68 crores from the 1976 profits, the reserves have gone up to Rs 2.16 crores, and the total of paid up capital and reserves have gone up to Rs 5.16 crores against Rs 3.48 crores at end 1975.

Rural Credit

The bank continued to transfer resources to the rural areas in support of higher economic activity. The credit deposit ratio at the bank's rural branches stood at 116.77 per cent as against 74.26 per cent for all branches. Rural branches opened since July 19, 1969 showed in fact a higher credit deposit ratio of 137.35 per cent. The average credit per rural branch was Rs 15.76 lakhs and average deposit Rs 11.48 lakhs.

Under the second phase of the Lead Bank Scheme a team of the bank's officers conducted during the year a detailed survey of the geographical characteristics, infrastructure facilities, occupational patterns, the economic potential and the credit needs of the union territory of Pondicherry and drew up an action plan envisaging aggregate additional credit deployment of the order of Rs 41.23 crores over a period of five years—1977-78 to 1981-82—under the primary, secondary and tertiary sectors. the projected additional credit flow is expected to generate additional production of goods and services of the order of Rs 8 crores per annum at the end of the fifth year.

Priority Sectors

Credit plans for the other districts assigned to the bank are under various stages of completion and are expected to be placed before the respective district consultative committees by July 1977. The bank had 186 branches in its nine lead districts with deposits and advances amounting to Rs 60.79 crores and Rs 46.92 crores respectively at the end of 1976. Advances granted to the priority sectors (other than exports) at these branches amounted to Rs 30.47 crores at 1976 end, against Rs 24.52 crores at 1975 end.

The bank opened 82 branches in India during 1976 taking the total to 660. Fifty one of them were opened in rural and semi-urban centres and 31 in urban/metropolitan centres. During 1976 the bank opened branches in eight unbanked blocks in its lead districts and applied for licences for opening branches in the remaining 10 unbanked blocks and it is expected that by the year end, there will be no unbanked blocks in any of the lead districts assigned to the bank. In fact the bank has applied for licences to open branches in 42 more unbanked blocks outside its lead districts, many of them in north India. During 1976 the bank opened 14 more extension counters.

Pfizer

The total net sales of Pfizer Ltd for the year ended November 30, 1976 amounted to Rs 39.3 crores as against Rs 33.9 crores in 1975. During the year, prices of some bulk drugs mostly supplied by the public sector undertakings were increased and as a result thereof, the government granted a marginal increase in the selling prices of formulations in which such bulk drugs are used.

The net profit for the year was higher at Rs 2.36 crores as against Rs 1.67 crores in 1975. The improvement in the performance has been mainly due to the containment of inflation during the earlier part of the year. However, inflation has reappeared in the latter part of 1976 and the inflationary trend is continuing currently.

In September 1976, the government announced reduction in the prices of eight bulk drugs. Consequential price reductions in the formulations of these products were also announced. As a result of this, prices of some of the antibiotics and vitamin formulations marketed by the company have been reduced from January 1977. The impact of these price reductions as well as the upward inflationary trends may have an adverse effect on the company's operating results for 1977.

The company's pre-tax profit on formulations during 1976 was almost half of the permissible rate of 15 per cent on sales turnover allowed under the Drugs (Prices Control)

Order 1970. Since the imposition of the Price Control Order, the profitability of the company has been showing a declining trend.

The company is engaged in diversified operations which include pharmaceuticals, chemicals, nutritional and health care products and agricultural and animal health products.

Glaxo

The board of directors of Glaxo Laboratories (India) Limited has allotted 36,00,000 new equity shares of Rs 10 each as bonus shares to those members of the company whose names stand on the register of members on May 5, 1977, in the proportion of one new equity shares for every two shares held. The board of directors has also declared an interim dividend on the equity shares of the company at the rate of seven per cent, on the capital as increased by the said allotment. The interim dividend will be payable to those shareholders whose names stand on the register of members on May 5, 1977.

MICO

The board of directors of Motor Industries Co Ltd have recommended a final dividend of Rs 6 per share, Sales in 1976 increased to Rs 531.15 million from Rs 512.13 million in 1975. The profit for 1976, after depreciation and tax provisions, went up to Rs 24.99 million from Rs 23.79 million in the earlier year. While the amount of profit for the year 1975 is arrived at after deducting the deyelopment rebate of Rs 3,418,000, there is no development rebate for the year 1976. The tax provision for the year 1976 is Rs 65 million as against Rs 58 million for the preceding year. The company's annual general meeting will be held on June 3, 1977.

Usha Martin Black

Usha Martin Black (Wire Ropes) Ltd has reported significant improvements in its working results during the year ended December 31, 1976, production, sales and profits all being substantially higher than in 1975. Sales touched a new record of Rs 22.4 crores as compared to Rs 16.5 crores in 1975. While the profit before tax and depreciation recorded a smart rise to Rs 1.40 crores from Rs 1.37 crores in the previous year. The directors have recommended an equity dividend of 17.5 per cent for 1976, which will absorb Rs 20.72 lakhs.

The equity dividend of 13 per cent declared for 1973 was paid to the extent of 11.5 per cent having regard to the Companies (Temproray Restrictions on Dividends) Act, 1974. In view of the recent clarification by the department of Company Affairs, the directors having decided to pay the balance of the 1973 dividend of 1.5 per cent to those equity shareholders whose names appeared on the registers of members of the company on June 26, 1974.

The company continues to be the largest exporter of steel wire ropes in the country. Export sales during the year was Rs 45 million f.o.b. against Rs 30 million f.o.b. during the previous year. New markets have been established and the range of the goods exported has also been widned.

The company has received a letter of intent for establishing a new unit at Adityapur near Jamshedpur for manufacture of 50,000 tonnes of wire rods annually. Necessary steps are being taken for implementation of this project. The company has also obtained permission of the central government for import of designs and drawings for the manufacture of machines for implementation of expansion of its Ranchi factory to manufacture 1300 M/T annually of large diameter wire ropes for which the company holds a letter of intent. The company's application for COB licence to continue to manufacture 12,000 M/T steel wires annually is still under consideration of the government.

The company's proposes to issue 11,84,166 fully paid up equity shares of Rs 10 each as bonus shares in the proportion of one new equity share for every equity share held. Besides the company proposes to issue of 5,92,083 equity shares of Rs 10 each at a premium of Rs 2 per share as rights shares to the equity shareholders, 89,585 equity shares of Rs 10 each at a premium of Rs 2 per share to the company's employees and 40,000 cumulative redeemable 'C' preference shares of Rs 100 each at par as rights shares to the preference shareholders. These issues are being made to meet a part of the finance required for the company's proposed wire rod mill at Adityapur

American Express

American Express Company has reported record first quarter consolidated net earnings of $50.0 million, a gain of 54.9 per cent over the $32.3 million for the first quarter of 1976. Earnings for the period ending March 31 were 69 cents a share, compared with 45 cents a year ago. Consolidated revenues were $764.5 million for the quarter, compared with $668.1 million for the year earlier period, an increase of 14.4 per cent. The company also announced that it will apply for listing on the New York Stock Exchange. The market value of American Express Company shares exceeds that of any other issue traded in the US over-the counter market.

"The earnings increase was a broad one, with the company showing strength across the board," Howard L. Clark, chairman and chief executive officer, told the annual meeting of American Express Company shareholders held recently. The meeting was Mr Clark's 17th and last presided over by him as the company's chief executive.

Shasun Chemicals

The factory of Shasun Chemicals (Madras) Pvt Ltd at Madras was inaugurated recently by Mr P. Ramachandran, the union minister for Energy. The company is to manufacture essential drug chemical 'Analgin'. Presently

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more than half of the requirement is met by imports.

The company has started been by the house of Shankarlal Jain and house of Cork Industries and backed by M/s Novochem Consultants, Hyderabad who have done extensive research in the field of basic drug chemical and whose efforts have made it possible to use sophisticated technology of 'Analgin' in small scale industry and in private sector. A significant feature of the project is that the plant is made up of indigenous machinery and equipment, the know-how as well as the raw materials. This will be the first of its kind in the states of Tamil Nadu, Kerala and Karnataka. The company will go into production within a year from the date of incorporation.

Alta Laboratories

The Monopolies & Restrictive Trade Practices Commission has recommended for approval by the central government the proposal of M/s Alta Laboratories Pvt Ltd, Bombay for the expansion of its capacities of aspirin and other salicylates subject to certain conditions. The proposal relates to an application made by the company for substantial expansion of its capacities for praduction of salicylates at their exiising factory located at Khopoli, Bombay.

The applicant company had submitted the proposal for the expansion of its capacities of acetyl salicylic acid, IP, i.e. aspirin (from 960 to 2000 tonnes), salicylic acid IP (from 600 to 1200 tonnes), sodium salicylate IP (from 420 to 840 tonnes) and methyl salicylate IP (from 250 to 500 tonnes). However, during the course of enquiry, the applicant company revised its proposals as a result of which proposed expansion in capacity was limited to acetyl salicylic acid (aspirin) up to 2,000 tonnes, and of salicylic acid IP upto 700 tonnes and regularisation of the existing installed capacity for methyl salicylate (360 tonnes). For the implementation of these capacities, the production of technical and purified grades of salicylic acid was also proposed to be raised to 3,000 tonnes as against the existing effective capacity of 2,040 tonnes. The production of aspirin was proposed to be 1,500 tonnes by 1979, 1800 tonnes by 1981 and to the full capacity level of 2,000 tonnes in 1982 and that of salicylic acid IP was to be increased to the full capacity level of 700 tonnes by 1979.

The commission has recommended clearance of the revised proposal of M/s Alta Laboratories subject to certain terms and conditions.

News and Notes

The resorcinol plant of **Hindustan Organic Chemicals Ltd** a state enterprise at Rasayani near Bombay has gone on stream. Exculsively designed and developed by the company's R&D team, the plant utilises the waste liquors from the company's meta amino phenol plant to produce resorcinol. So apart from saving considerable foreign exchange and adding to the company's revenue, the plant will also go a long way in helping the company to solve its pollution problem.

Tettex AG Instruments, Zurich, represented in India by **Larsen & Toubro Limited**, has introduced four new compact, fully solid-state digital measuring instruments. The 12 mm $3\frac{1}{2}$ digit display counts to ± 1999. Standard power supply is 220 VAC while 100, 117 and 240 VAC are optional. The working temperature is 23°C; operating range is —10° to 60°C.

The four new instruments are electronic digital thermometer for platinum resistance thermometers, electronic digital thermometer for thermocouples, digital milliohmmeter and digital ohmmeter.

German Cargo Services, a newly established subsidiary of Lufthansa German Airlines, carried a live cargo of 24 elephants on its maiden flight from Delhi to Frankfurt on May 5, 1977. The service of a Boeing 707 freighter was chartered by Messrs Zoo Sen Sen of West Germany. The total shipment weighed approximately 25 tons.

New Issues

Banswara Syntex Ltd is offering 8,78, 593 equity shares of Rs 10 each for cash at par. out of which 2,98,593 equity shares have been reserved to the promoters, Rajasthan State Industrial and Mineral Development Corporation. The remaining 5,80,000 equity sha are now offered for cash at to the public for subscripti The subscription list opens June 6 and will close June 16 or earlier but before June 8.

The company is setting u spinning mill of 12,480 spin for manufacture of synth blended yarn at Banswara notified backward area and company will be entitled concessional finance fr financial institutions to the t of Rs 2 crores. Construct work is making good progr Commercial production expected by January 1978.

The demand for blended y is continuously on the increa Moreover blended yarn is a preferred to cotton y because of its durability a easy care properties.

Hence the company is assu of a fairly good future. Barr unforeseen circumstances directors are hopeful of dec ing a dividend to equity sha holders within a reasona period.

Dividend

(per cen

Name of the company	Year ended	Equity dividen declared for	
		Current year	Previou year
Higher Dividend			
Muller and Phipps	Dec. 31, 1976	11.0	Nil
Coimbatore Pioneer	Dec. 31, 1976	12.0	Nil
Premier Construction Co.	Dec. 31, 1976	13.33	10.0
Varadhalakshmi Mills	Sept. 30, 1976	10.0	7.5
Same Dividend			
John Fowler (India)	Dec. 31, 1976	12.0	12.0
Shri Dinesh Mills	Dec. 31, 1976	12.0	12.0
Travancore Electro-Chem	Dec. 31, 1976	15.0*	15.0
Elecon Engineering	Dec. 31, 1976	14.0*	14.0
Gujarat Machinery Manufacturers	Sept. 31, 1976	12.0	12.0
Empire Industries	Dec. 31, 1976	10.0	10.0
Shri Ramkrishna Mills	Dec. 31, 1976	Nil	Nil
Bechardas Spg. & Wvg. Mills	Dec. 31, 1976	Nil	Nil

*On the enlarged capital.

Chairman's Speech

Hindustan Aluminium Corporation Ltd.

Following is the Speech of the Chairman, Shri G.D. Birla, on the occasion of the Eighteenth Annual General Meeting of the Corporation held in Bombay on April 11, 1977

Dear Shareholders:

Before I comment on the Report I should like to tell you that this time we have made such an elaborate report on the working and the position of the Company that there is hardly anything left for me to tell you. But I should like to say something about the subsequent events. while writing the report we had mentioned that we expected to fulfil the target of production of 1,00,000 tonnes and perhaps more next year. We were relying on the agreement that we had entered into with the State Electricity Board. Unfortunately, recently we got a sudden notice and the power is being cut by 35 per cent. Our production that was nearly 265 tonnes per day has gone down now to about 230 tonnes per day and accordingly at the present rate of production we are producing only 85,000 tonnes per year. But I am hoping that after the ensuing rainfall when more water comes in Rihand it may be possible to persuade the Government to restore the cut and give us more power. I have not lost hope. I hope that we may still be able to reach the target if not this year but some time in the beginning of next year. But still there is a kind of uncertainty.

We have been trying our best for the last three years to set up our own captive power plant and the Government has not said 'No' to us. In fact they welcomed the proposition. For three years now we have been negotiating. Nothing has happened. There is a power cut in Tamil Nadu, power cut in Karnataka, power cut in Maharashtra, Uttar Pradesh and Bengal.

This I believe is not a happy state of affairs that when every State Government has been talking of larger production there should be power cut. In Janata Party manifesto they have promised higher production. Unfortunately for reasons beyond their control the production during the last one month has gone down in respect of a majority of items because of power cut and partly because of labour problems. Recently during the last three weeks everywhere, in Calcutta, Bombay, Madras and all these places, I have been hearing of labour problems. But as a man of experience who has seen so many administrations I can tell you that this is going to be a passing stage. Because our present Government, Janata Government, is determined to increase production and eliminate unemployment and they are quite serious about it. We should all help them.

Let us hope that something will happen. But if my words can reach the ears of the Government I would again emphasise that highest priority should be given for building up new power plants. There is no dearth of foreign exchange just now. If they cannot arrange for supply of power plants in this country we ourselves are prepared to import a power plant. And if we are allowed to import a power plant, I am sure, that within next 2 or 3 years we can set up our own captive power plant. But perhaps I am too optimistic. I am still working hard.

Last year you all insisted that I should be present. So I have come. But I can assure you that whether I am present at the meeting or not, myself and Mr. Mandelia, both of us, are working hard all the time to look after the interest of the shareholders.

I still believe that this year we can show better performance than last year. But of course this will depend partly on power and partly on labour problems. So after having said all this, I don't think it is necessary to make any further comments.

Note : This does not purport to be the proceedings of the Annual General Meeting.

World Bank Atlas, population, prosperity, poverty trends

RECORDS AND STATISTICS

THE ELEVENTH edition of the *World Bank Atlas* contains estimates of population, gross national product (GNP), and per capita product in current US dollars for most countries of the world for the year 1974. Growth rates for population and real per capita product are shown for the periods 1960-74 and 1965-74. These estimates are based on average 1973-75 prices and exchange rates, a shift from the 1972-74 period used in the previous edition of the *Atlas*.

The major changes in the world economy which have occurred during the last few years—notably the abandonment of the fixed exchange rate system and the sharp increases in the prices of crude petroleum and other primary commodities—have had a significant effect on per capita income and on the relative income ranking among countries. The petroleum-exporting countries showed significant improvements in their income levels due primarily to the rise in petroleum prices which began to have an impact in 1974. The countries with per capita income levels below $200—primarily in South Asia and sub-Saharan Africa—had little or no growth in per capita income in 1974, in part because of their vulnerability to the adverse effects of international economic developments. Significant changes in currency parities have brought about a shift in the relative income ranking among developed countries.

The first edition of the *Atlas* appeared in 1966 and contained per capita product estimates for the year 1964. Conversion into US dollars was achieved through the prevailing annual average exchange rates. In the subsequent five editions, these estimates were updated by the indices of real growth in each conntry and converted into current US dollars by means of the implicit US GNP deflator. By 1971, however, it was apparent that this approach was far from satisfactory. Particularly, no single year was likely to be ideal for a straight exchange rate conversion for all countries. For the 1972 *Atlas*, therefore, the single-year base was abandoned and a multi-year exchange rate conversion method was adopted. The base period 1965-71 was chosen because a seven-year period was found to be adequate to smooth out temporary distortions in exchange rates.

Following the major realignment of world currencies in December 1971, however, it became necessary to update the base period. The considerable changes in international prices which occurred—particula with regard to petroleum a primary commodities—in 19 and 1974 made updating of t base period even more urge The objective of changing t base period for the 1975 *At* from 1965-71 to 1972-74 w to take into account the eff of the new price and exchan rate situation by reducing t weight of the years before 19 in the calculation of avera prices and exchange rates. Ev then, the modified base peri 1972-74, while reflecting fu the effects of floating exchan rates, contained only one y under the new internatio price structure. For the 19 edition of the *Atlas* the thr year base period has been sh ed to 1973-75, so as to refl more fully the most curr market rates of exchange a prices. It is intended to mo the base period forward aga to 1974-76, for next year's *Atl*

Africa

Population (mid-1974), GNP at Market Prices (1974), GNP Per Capita (1974) and Average Annual Growth Rates (1960-74 and 1965-

(GNP at market prices rounded to US$ tens of millions. GNP per capita rounded to nearest US$10.)

Country	Population (000)	GNP at market prices		Growth rates (%)			
		Amount (US$ millions)	Per capita (US$)	Population		GNP per capita	
				1960-74	1965-74	1960-74	1965-74
Nigeria	73,044	20,810	280	2.5	2.5	2.9	6.0
Egypt, Arab Republic of	36,350	10,210	280	2.5	2.4	1.5	1.0
Ethiopia	27,240	2,660	100	2.2	2.5	2.2	1.5
South Africa	24,940	30,180	1,210	2.7	2.7	2.9	2.5
Zaire	24,071	3,530	150	2.7	2.7	2.6	2.9
Morocco	16,291	7,070	430	2.4	2.4	1.8	2.8
Sudan[1]	15,227	3,460	230	2.2	2.2	1.7	4.3
Algeria	15,215	11,100	730	3.2	3.3	1.3	4.5

—cont.

Country	Population (000)	GNP at market prices: Amount (US$ millions)	GNP at market prices: Per capita (US$)	Growth rates (%): Population 1960-74	Growth rates (%): Population 1965-74	Growth rates (%): GNP per capita 1960-74	Growth rates (%): GNP per capita 1965-74
anzania[2]	14,351	2,320	160	2.9	2.8	2.6	2.3
enya	12,910	2,610	200	3.2	3.4	3.2	3.5
ganda	11,186	2,700	240	2.9	3.1	1.8	0.7
hana	9,610	4,130	430	2.6	2.6	—0.2	0.3
lozambique[1]	9,030	3,030	340	2.0	2.2	2.8	3.5
Iadagascar	8,560	1,570	180	2.7	2.8	0.1	0.3
ameroon	7,120	1,760	250	2.0	2.0	3.9	4.0
vory Coast	6,387	2,930	460	3.6	4.0	3.5	2.7
hodesia	6,100	3,200	520	3.4	3.5	1.9	3.5
ngola	6,050	4,290	710	1.4	1.4	3.7	3.2
pper Volta	5,760	520	90	2.0	1.9	—0.1	—0.5
Iali	5,560	450	80	2.2	2.1	0.9	0.4
unisia[3]	5,460	3,560	650	2.2	2.3	3.9	5.4
uinea	5,390	630	120	2.8	2.8	0.0	0.1
Ialawi	4,958	660	130	2.6	2.6	3.9	4.7
enegal	4,869	1,590	330	2.6	2.7	—1.1	—0.9
ambia	4,781	2,470	520	2.9	2.9	2.3	1.0
iger	4,480	540	120	2.7	2.7	—1.8	—3.8
wanda[1]	4,058	310	80	3.3	2.9	—0.2	1.4
had	3,952	410	100	1.8	2.0	1.2	—1.5
urundi[1]	3,655	330	90	2.0	2.0	1.3	1.3
omalia[1]	3,100	290	90	2.4	2.4	—0.3	1.1
enin, People's Republic of[1]	3,027	370	120	2.7	2.7	0.7	0.8
Sierra Leone[4]	2,911	540	190	2.2	2.3	1.6	1.4
Libyan Arab Republic	2,352	10,430	4,440	3.9	4.2	12.5	6.5
Togo	2,176	550	250	2.7	2.7	4.4	2.8
Central African Empire	1,748	370	210	2.2	2.2	0.4	0.8
Liberia	1,500	580	390	3.3	3.3	2.2	4.1
Congo, People's Republic of the	1,300	610	470	2.5	2.3	2.8	4.0
Mauritania	1,290	380	290	2.1	2.5	3.8	1.3
Lesotho[1]	1,191	170	140	2.2	2.2	4.2	3.7
Mauritius	871	510	580	2.0	1.5	0.7	1.9
Namibia[1]	860	690	800	3.1	3.0	0.0	—2.9
Boswana[1]	654	190	290	1.9	1.9	4.8	6.2
Gabon	528	1,030	1,960	1.2	1.5	4.7	6.4
Guinea-Bissau	520	210	390	—0.4	—0.7	3.5	5.2
Gambia, The	506	90	170	2.2	2.2	3.8	3.2
Reunion[1]	490	760	1,550	2.7	2.4	4.1	3.5
Swaziland[1]	478	190	390	3.0	3.1	6.7	6.0
Equatorial Guinea[5]	318	90	290	1.8	1.3	—0.5	—3.7
Cape Verde Islands[1]	290	140	470	2.9	3.1	4.7	4.7
Comoros[1]	265	60	230	2.2	2.1	3.1	1.6
Ceuta and Melilla[1]	126	90	720	—1.4	—1.4	4.9	6.6
Spanish Sahara (former)	117	n.a.	n.a.	12.0	11.6	n.a.	n.a.
French Territory of Afars and Issas[1]	103	180	1,720	1.9	2.2	9.9	11.3
Sao Tome and Pinciple[1]	79	40	570	1.9	3.2	0.6	—1.0
Seychelles Islands[1]	56	30	520	2.1	2.0	2.6	3.7

1 Estimates of GNP per capita and its growth rate are tentative. 2 Mainland Tanzania. 3 GNP per capita growth rate relates to 1961-74. 4 GNP per capita growth rate relates to 1964-74. 5 GNP per capita growth rate relates to 1962-74.

Europe

Population (mid-1974), GNP at Market Prices (1974), GNP Per Capita (1974) and Average Annual Growth Rates (1960-74 and 1965-74)

GNP at market prices rounded to US$ tens of millions. GNP per capita rounded to nearest US$ 10.

Country	Population (000)	GNP at market prices		Growth rates (%)			
		Amount (US$ millions)	Per capita (US$)	Population		GNP per capita	
				1960-74	1965-74	1960-74	1965-74
USSR[1,2]	252,060	598,640	2,380	1.1	1.0	3.8	3.4
Germany, Federal Republic of	62,040	388,670	6,260	0.8	0.6	3.7	3.9
United Kingdom	55,970	200,830	3,590	0.5	0.4	2.3	2.2
Italy	55,410	156,510	2,820	0.7	0.7	4.2	4.0
France	52,510	285,780	5,440	1.0	0.8	4.4	4.8
Turkey	39,167	29,460	750	2.5	2.6	3.9	4.3
Spain	35,109	87,250	2,490	1.1	1.1	5.8	5.4
Poland[1,2]	33,690	84,660	2,510	0.9	0.8	4.0	4.5
Yugoslavia	21,155	27,820	1,310	1.0	0.9	4.9	5.4
Romania	21,029	23,080	1,100	1.0	1.2	n.a.	8.0
German Democratic Republic[1,2]	16,920	62,710	3,710	0.0	—0.1	3.1	3.0
Czechoslovakia[1,2]	14,690	48,860	3,330	0.5	0.4	2.4	2.5
Netherlands, The	13,540	71,120	5,250	1.2	1.1	4.0	4.1
Hungary[1,2]	10,460	22,810	2,180	0.3	0.3	3.2	2.9
Belgium	9,770	55,430	6,670	0.5	0.3	4.5	4.9
Greece	9,020	18,830	2,090	0.6	0.5	6.8	6.5
Portugal	9,014	14,650	1,630	0.0	—0.1	7.4	7.6
Bulgaria[1,2]	8,676	15,420	1,780	0.7	0.6	4.5	3.5
Sweden	8,160	59,100	7,240	0.7	0.6	3.2	2.8
Austria	7,555	33,310	4,410	0.5	0.5	4.4	5.0
Switzerland	6,440	50,680	7,870	1.2	1.1	2.9	2.9
Denmark	5,050	32,470	6,430	0.7	0.7	3.8	3.4
Finland	4,690	22,030	4,700	0.4	0.3	4.6	5.2
Norway	3,990	23,360	5,860	0.8	0.8	3.7	3.4
Ireland	3,090	7,170	2,320	0.6	0.8	3.6	3.6
Albania[1,2]	2,350	1,250	530	2.7	2.6	4.4	5.0
Cyprus	645	850	1,320	0.9	0.8	5.4	5.1
Luxembourg	360	2,180	6,050	0.8	0.8	2.8	3.2
Malta	320	390	1,220	—0.1	0.1	6.7	8.4
Iceland	220	1,200	5,430	1.4	1.2	3.1	2.4
Channel Islands[1]	128	360	2,810	1.2	1.2	2.0	1.2
Isle of Man[1]	60	110	1,840	1.7	2.2	0.0	—2.1
Greenland[1]	48	140	2,960	2.9	2.0	1.9	0.7
Faeroe Islands[1]	40	190	4,720	1.0	0.9	4.7	3.7
Gibraltar[1]	28	70	2,470	1.2	1.2	2.5	4.9

1 Estimates of GNP per capita and its growth rate are tentative.

2 For estimation of GNP per capita, see Technical Note.

Population (mid-1974), GNP at Market Prices (1974), GNP Per Capita (1974), and Average Annual Growth Rates (1960-74 and 1965-74)

(GNP at market prices rounded to US$ tens of millions. GNP per capita rounded to nearest US$10.)

Country	Population (000)	GNP at market prices: Amount (US$ millions)	GNP at market prices: Per capita (US$)	Growth rates (%): Population 1960-74	Growth rates (%): Population 1965-74	Growth rates (%): GNP per capita 1960-74	Growth rates (%): GNP per capita 1965-74
China, People's Republic of[1,2]	809,251	244,640	300	1.6	1.7	5.2	4.6
India	595,586	80,410	140	2.3	2.3	1.1	1.3
Japan	109,670	446,026	4.070	1.1	1.2	8.8	8.5
Bangladesh	76,200	7,910	100	2.5	2.3	—0.5	—1.9
Pakistan	67,213	8,760	130	2.9	2.9	3.4	2.5
Viet Nam, Socialist Republic of[1,2]	44,155	6,510	150	2.7	2.7	0.3	—0.8
Philippines	41,433	13,650	330	3.0	3.0	2.4	2.7
Thailand	40,780	12,670	310	3.1	3.1	4.6	4.3
Korea, Republic of	33,459	15,980	480	2.1	1.8	7.3	8.7
Iran	33,100	41,440	1,250	3.2	3.2	6.7	7.7
Burma	29,521	2,910	100	2.2	2.2	0.7	0.8
Afghanistan	16,311	1,880	110	2.2	2.2	0.5	1.1
China, Republic of	15,710	12,710	810	2.9	2.7	6.5	6.9
Korea, Democratic People's Republic of[1,2]	15,443	5,980	390	2.8	2.8	4.4	3.5
Sri Lanka	13,393	1,760	130	2.2	2.0	2.1	2.0
Nepal	12,320	1,250	100	2.0	2.2	0.4	0.0
Malaysia	11,702	7,910	680	2.6	2.6	3.9	3.8
Iraq	10,770	12,000	1,110	3.2	3.3	4.0	4.8
Saudi Arabia	8,008	22,670	2,830	1.8	1.8	8.4	9.2
Cambodia[1,3]	7,725	570	70	2.5	2.7	—2.7	—6.2
Syrian Arab Republic	7,177	3,990	560	3.3	3.3	4.0	4.2
Yemen Arab Republic[1]	6,379	1,160	189	2.4	2.4	n a	n.a.
Hong Kong	4,249	6,850	1,610	2.2	1.9	6.6	5.4
Israel	3,359	11,630	3,460	3.3	3.1	5.3	5.8
Laos, People's Democratic Republic[1,3]	3,260	220	70	2.4	2.4	1.8	2.0
Lebanon[3]	3,065	3,290	1,070	2.7	2.8	3.1	3.7
Jordan	2,620	1,120	430	3.3	3.4	0.9	—2.5
Singapore	2,219	4,970	2,240	2.1	1.8	7.6	10.0
Yemen, People's Democratic Republic, of,[1,4]	1,632	360	220	3.1	2.9	n.a.	—4.3
Mongolia[1,2]	1,396	860	610	2.7	2.8	0.8	1.8
Bhutan[1]	1,150	80	70	2.3	2.3	—0.3	—0.2
Kuwait	930	9,330	10,030	9.1	7.8	—2.7	—2.3
Oman	750	1,250	1,660	3.1	3.1	14.1	19.2
United Arab Emirates	548	6,060	11,060	13.4	17.1	15.6	10.4
Macao[1]	270	80	310	3.6	3.3	—3.2	—3.7
Bahrain[1,5]	245	580	2,350	3.4	3.1	n.a.	21.2
Qatar	190	1,380	7,240	8.3	8.5	5.5	8.1
Brunei[1]	150	990	6,630	4.6	4.9	2.4	5.7
Maldive Islands[1]	116	10	100	1.8	1.9	0.8	0.4

1 Estimates of GNP per capita and its growth rate are tentative. 2 For estimation of GNP per capita, see technical notes, 3 GNP per capita estimated on the 1972-74 base period. 4 GNP per capita growth rate relates to 1969-74. 5 GNP per capita growth rate relates to 1971-74.

South America

Population (mid-1974), GNP at Market Prices (1974), GNP Per Capita (1974), and Average Annual Growth Rates (1960-74 and 1965-74)

(GNP at market prices rounded to US$ tens of millions. GNP per capita rounded to nearest US$10.)

Country	Population (000)	GNP at market prices		Growth rates (%)			
		Amount (US$ millions)	Per capita (US$)	Population		GNP per capita	
				1960-74	1965-74	1960-74	1965-74
Brazil	103,981	95,920	920	2.9	2.9	4.0	6.3
Argentina	24,646	37,380	1,520	1.5	1.5	2.8	2.9
Colombia	23,125	11,640	500	2.9	2.8	2.6	3.4
Peru	14,953	11,110	740	2.9	2.9	2.0	1.8
Venezuela	11,632	22,780	1,960	3.3	3.3	2.4	2.2
Chile	10,408	8,680	830	2.2	1.9	1.7	1.3
Ecuador	6,952	3,310	480	3.4	3.4	2.4	2.9
Boliiva	5,470	1,550	280	2.6	2.6	2.5	2.2
Uruguay	2,754	3,290	1,190	0.5	0.4	0.5	0.8
Paraguay	2,484	1,270	510	2.6	2.6	2.0	2.5
Guuyana	791	390	500	2.4	2.4	1.5	1.1
Surinam	387	460	1,180	2.7	2.2	3.6	2.2
French Guiana[1]	58	90	1,470	3.9	3.6	3.8	6.3

1 Estimates of GNP per capita and its growth rate are tentative.

Oceania and Indonesia

Population (mid-1974), GNP at Market Prices (1974), GNP Per Capita (1974), and Average Annual Growth Rates (1960-74 and 1965-74)

(GNP at market prices rounded to US$ tens of millions. GNP per capita rounded to nearest US$10.)

Coungry	Population (000)	GNP at market prices		Growth rates (%)			
		Amount (US$) millions)	Per capita (US$)	Population		GNP per capita	
				1960-74	1965-74	1960-74	1965-74
Indonesia	128,400	21,780	170	2.1	2.3	2.4	4.1
Australia	13,340	71,080	5,330	1.9	1.8	3.2	3.4
New Zealand	3,030	13,070	4,310	1.6	1.5	2.1	1.8
Papua-New Guinea	2,650	1,250	470	2.4	2.4	4.2	4.1
Portuguese Timor[1]	650	100	150	1.7	1.7	1.2	2.1
Fiji[1]	564	470	840	2.6	2.2	3.2	5.4
British Solomon Islands[1]	183	60	310	2.7	2.8	1.3	0.9
Western Samoa[1]	157	50	300	2.5	2.4	0.9	1.3
French Polynesia[1]	134	340	2,530	3.9	4.6	4.8	—2.9
New Caledonia[1]	132	550	4,170	4.0	4.7	4.2	3.8
Guam[1]	105	460	4,420	3.2	3.5	7.9	10.5
Trust Territory of the Pacific Islands[1]	103	50	500	2.2	2.8	3.8	3.2
Tonga[1]	97	30	300	3.3	3.0	—0.1	—0.2
New Hebrides[1]	94	40	480	2.6	2.7	3.0	1.6
Gilbert and Ellice Islands[1]	59	40	730	1.7	1.7	—1.0	—0.5
American Samoa[1]	29	30	1,100	2.3	1.9	9.3	6.2

1 Estimates of GNP per capita and its growth rate are tentative,

orth and Central America

Population (mid-1974), GNP at Market Prices (1974), GNP Per Capita (1974), and Average Annual Growth Rates (1960-74 and 1965-74)

(GNP at market prices rounded to US$ tens of millions. GNP per capita rounded to nearest US1$10)

ountry	Population (000)	GNP at market prices: Amount (US$ millions)	GNP at market prices: Per capita (US$)	Growth rates (%): Population 1960-74	Growth rates (%): Population 1965-74	Growth rates (%): GNP per capita 1960-74	Growth rates (%): GNP per capita 1965-74
nited States	211,890	1,413,530	6,670	1.1	1.0	2.9	2.4
lexico[1]	57,899	63,050	1,090	3.4	3.5	3.3	2.8
anada	22,480	139,260	6,190	1.6	1.4	3.7	3.5
uba[2,3]	9,090	6,480	710	2.0	1.8	—0.9	—0.6
uatemala	5,284	3,060	580	2.3	2.1	3.3	3.8
ominican Republic	4,562	2,960	650	2.9	2.9	3.1	5.5
aiti	4,514	750	170	1.6	1.6	—0.1	0.7
l Salvador	3,887	1,590	410	3.4	3.4	1.8	1.0
uerto Rico	3,030	6,770	2,230	1.7	1.4	5.3	4.7
onduras	2,806	950	340	2.7	2.7	1.6	1.2
icaragua	2,041	1,360	670	2.7	2.7	3.0	1.5
amaica	2,008	2,390	1,190	1.7	1.7	3.6	4.5
osta Rica	1,921	1,610	840	3.1	2.9	2.9	3.7
anama	1,618	1,610	1,000	3.1	3.1	4.1	3.7
rinidad and Tobago	1,070	1,810	1,700	1.6	0.9	2.1	2.2
lartinique[2]	358	550	1,540	1.7	1.7	4.5	3.9
uadeloupe[2]	350	430	1,240	1.7	1.7	4.1	2.6
arbados	241	290	1,200	0.2	0.3	5.2	5.2
etherlands Antilles[2]	238	380	1,590	1.5	1.6	—0.3	0.6
ahamas[2]	199	490	2,460	4.0	3.7	1.6	—1.7
elize[2]	136	90	690	2.9	3.0	2.0	1.9
t. Lucia[2]	108	60	530	1.6	1.6	4.9	2.0
renada	108	40	330	1.2	0.8	2.2	1.6
t. Vincent[2]	91	30	340	0.9	0.9	1.3	2.4
irgin Islands (US)[2]	88	450	5,080	7.4	7.9	7.6	6.1
ominica[2]	75	30	410	1.6	1.6	0.9	—1.2
ntigua[2]	71	40	540	1.9	1.9	2.8	—1.2
ermuda[2]	56	300	5,300	1.6	1.6	4.5	4.4
t. Kitts-Nevis[2]	46	20	500	—0.9	—0.8	1.9	—0.7
anal Zone[2]	45	210	4,620	0.5	0.5	3.6	3.2

1 Estimate of GNP per capita does not reflect the significant devaluation of the peso in August 1976. 2 Estimates of GNP per capita and its growth rate are tentative. 3 For estimation of GNP per capita, see technical notes.

Technical Notes

or purposes of international omparison, gross national roduct (GNP) estimates in JS dollars or some other umeraire should be calculated, leally, on the basis of pur- hasing power parities or hrough direct real product omparisons. By far the most aborate and ambitious effort yet undertaken in this area is the United Nations International Comparison Project (ICP),* a study begun in 1968 jointly by the United Nations Statistical Office and the University of Pennsylvania with the support of the World Bank and a number of other international, national and private institutions.

The ICP, which is now entering its third and final research phase, has developed a highly sophisticated method for measuring total expenditure, which can then be used to derive more reliable and directly comparable estimates of GNP per capita income on an international scale than heretofore possible. The published ICP findings represent detailed comparisons for

*The results of the first phase of the ICP were published in 1975 in Krevis, Kennessy, Heston and Summers, *A system of International Comparison of Gross Product and Purchasing Power*, Boiltimore & London, the Johns Hopkins University Press, (1975).

10 countries, including three developing countries. At its completion the project will cover 35 to 40 countries, of which 20 to 25 would be developing countries.

In the interim, the World Bank continues to improve its *Atlas* as a source of readily available comparative GNP data. The methodology is updated continuously to take into account current price and exchange rate movements. These adjustments notwithstanding, the *Atlas* conversion remains an exchange rate conversion, and exchange rates are generally recognized to be rather inadequate for purposes of measuring the comparative purchasing power of national currencies. It should be remembered that exchange rates equate, at best, the prices of internationally traded goods and services. They may bear little relationship to the prices of goods and services not entering international trade, which form the bulk of the national product in most developing countries.

Agricultural Output

Agricultural output and services, in particular, are generally priced lower in relation to industrial output in developing than in industrialized countries, and agriculture often accounts for the largest share of total product in developing countries. Any exchange rate conversion method, therefore, tends to exaggerate the real income differences between less developed and more developed countries.

For reasons noted in the introduction, the 1974 GNP in market prices and per capita GNP published in this edition of the *Atlas* are calculated on the basis of the 1973-75 base period. With this method, GNP in domestic currency unit is first expressed in weighted average domestic prices of the base period 1973-75 and then converted into US dollars by means of the weighted average exchange rate for the same base period. After adjusting it for the rate of US inflation between the base period and the current year by means of the implicit US GNP deflator for 1974, this estimate is divided by the mid-year population to derive per capita GNP in current US dollars. The per capita GNP estimates for 1973 and 1975 are calculated on the basis of the same price and exchange rate after respective corrections for the rate of US inflation between the base period and current years as these estimates are in current US dollars.

General Trends

The year-to-year changes in the per capita GNP estimates reflect two factors: real per capita growth and the rate of US inflation. As in previous editions of the *Atlas*, the average annual rates of growth for population and per capita product for the periods 1960-74 and 1965-74 were computed by fitting a trend line to the logarithmic values of population and real GNP per capita over time. With this method all available observations in the relevant time periods are considered and the growth rates obtained reflect general trends rather than cyclical factors or irregular variations in any particular years.

As a result of shifting the *Atlas* base period from 1972-74 to 1973-75, the per capita GNP estimates for the petroleum-exporting countries have begun to reflect, to a larger degree than in the previous edition, the income effect of the considerable increases in petroleum prices since late 1973.

The single-year exchange rate conversion generally gives higher estimates than the *Atlas* method, especially when petroleum is a more important element in the country's GNP. On the other hand, the ratio of the single-year exchange rate conversion estimate to *Atlas* method data is consistenly higher for 1974 (based on 1972-74) than for 1975 (based on 1973-75). These latter estimates reflect the use of the updated base, so that the impact of the large relative export and product price changes in 1974 influence the estimates in two—rather than one—of the three base years.

Physical Indicators

The method used to estimate GNP and GNP per capita for the centrally planned economies (CPEs) of eastern Europe is essentially the same as in previous editions. Starting points are the estimates of gross domestice product (GDP) for 1965 developed by the UN Economic Commission for Europe (ECE)† through an extensive physical indicators comparison. In that study, GDP per capita estimates denominated in US dollars for 22 non-CPE countries were regressed against 21 physical indicators to determine the relationship among them. Estimates of GDP for the CPEs for 1965 were then obtained by substituting the values of the 21 physical indicators of the CPEs in the estimating equations derived for the 22 non-CPE countries. For the *Atlas*, these 1965 ECE estimates for the CPEs and the other countries were moved to 1974 by means of indices of real GNP and population growth and the weighted average GNP deflator for the 18 European market economies included in the original study.

Regression Analysis

The relationship between these 1974 ECE-based estimates — which are similar to purchasing power parity estimates—and the 1974 GNP per capita estimates derived through the standard *Atlas* method for the non-CPE countries was then determined by regression analysis using a second degree polynomial and was found to be highly significant. The GNP per capita estimates (*Atlas* methodology equivalents) for the East European CPEs other than Romania were then calculated on the basis of this relationship.

Two changes in the estimating procedure used for the 1974 *Atlas* have been incorporated in the calculations for this edition of the *Atals*: first, the substitution of a second degree polynomial for the previous straight line regression, and second, the elimination of non-European reference countries. Information available on Albania, Cuba, and the Asian CPEs is fragmentary and of tentative. As a result, different methods of estimation are used in each case.

It should be emphasized that in the absence of market conditions, internal cost and price relationships in the countries with centrally planned economies differ substantially from those in other countries having similar per capita GNP levels. More than usual caution must be exercised, therefore, in using and interpreting data for these countries.

† UN Economic Commission for Europe, *Economic Survey of Europe in 1959, Part I: Structural Trends and Prospects in the European Economy*; New York (1970); pp 139-152.

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